

Asset quality remains stable despite challenges in microfinance segment

Q2FY25 Result Update | Sector: NBFC | October 22, 2024

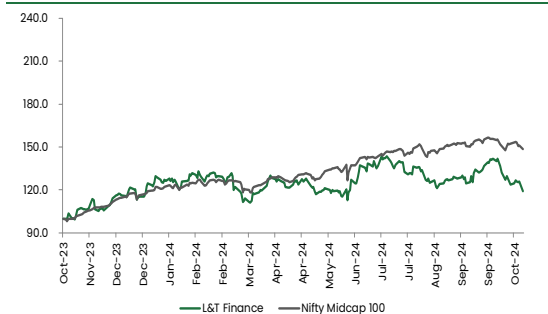
BUY

CMP (Rs)	150
Target Price (Rs)	197
Potential Upside	31.4%
Sensex	80,610
Nifty	24,596

Key Stock data	
BSE Code	533519
NSE Code	L&TFH
Bloomberg	LTFH:IN
Shares o/s, Cr (FV 10)	248.9
Market Cap (Rs Cr)	37,267
3M Avg Volume	69,79,172
52 week H/L	194/127

Shareholding Pattern

(%)	Mar-24	Jun-24	Sep-24
Promoter	65.9	66.4	66.29.0
FII	11.0	7.3	6.7
DII	8.7	11.6	12.3
Public	14.4	14.7	14.7

1 year relative price performance

1 year Forward P/BV (x)

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Steady top-line growth: L&T Finance reported a 3.65% (QoQ) and 18.1% (YoY) increase in net interest income, reaching Rs 2,178 crore, driven by robust growth in retail assets like LAP and Home loans. During the quarter, the cost of borrowing moderated by 5bps on QoQ to 7.8%, while other income saw a significant YoY growth of 17.9%. As a result of the healthy growth in retail finance business and other income growth, profit after tax (PAT) increased by 1.5% QoQ and 16.9% YoY, reaching Rs 696 crore.

Strong growth in retail AuM book: Retail AuM increased by 5.4% QoQ/28.2% YoY to Rs 88,975cr which was led by healthy disbursement growth of 11.8% YoY to Rs 15,092cr. The company saw healthy growth in its loan book in segments such as SME Finance (16.1% QoQ/115.1% YoY), Urban Finance (7.6% QoQ/33% YoY), LAP (12.4% QoQ/58% YoY), Home loans (7.9% QoQ/38.6% YoY) while slowdown was seen in segment such as farmer finance (2% QoQ/8% YoY). Similar to loan book, the company saw healthy disbursement growth in LAP business (25.7% QoQ/95.5% YoY). Going forward, the company remains optimistic of its loan growth in FY25E and anticipates healthy growth in its loan book.

Focus on secured loans impacted NIMs: During the quarter, the company reported a decline in its margins, with the NIM decreasing by 37 bps QoQ while on annualised basis it improved by 32 bps YoY. As the industry is currently facing some headwinds due to microfinance segment, the management has taken a cautious approach and has begun to focus more on secured assets which impacted its NIMs. The combined NIM and fee & other income declined by 22 bps QoQ and while improving marginally by 2bps YoY, driven mainly by healthy fee income. Looking ahead, the company has lowered its NIMs plus fee guidance from 10.75% - 11.25% ranges to 10.50% -11% range.

Asset quality continues to remain robust: The Company's asset quality largely remains stable despite stress seen in microfinance segment at industry level. As GS3 assets were in line at 3.2% increasing 5bps on QoQ while seeing a decline of 8 bps YoY. However, due to pressures in microfinance, particularly in regions like West Bengal, Bihar, and Gujarat, the company reported a credit cost of 2.6%, slightly above the guided range of 2% to 2.5%. Management anticipates that credit costs may stay elevated for several more quarters due to ongoing challenges in the microfinance sector.

Valuation and Outlook: L&T Finance has demonstrated strong growth in its AuM, despite facing challenges in the microfinance sector. The company's NIMs remain robust at approximately 8.9%, as management adopts a cautious strategy and increases focus on secured products. This approach has allowed L&T Finance to maintain solid asset quality, outperforming its peers in the industry. However, due to current market challenges, growth expectations for the retail segment have been revised downward, while credit cost assumptions have been raised. As a result, we expect NII and PAT to grow at CAGRs of 13.6% and 10%, respectively, over the fiscal years 2024 to 2026. We maintain **Buy** rating on the company with a target price of **Rs 197**, valuing the company at 1.7x of its FY26E Adj. BV.

Financial Summary - consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Interest Income	12,565.1	12,913.9	14,623.9	16,584.7
Total Revenue from Operations	12,775.0	13,580.6	15,390.2	17,465.6
Total Income	13,301.7	14,055.1	15,950.1	18,126.3
Net interest income	6,767.9	7,536.7	8,280.8	9,726.8
Profit before Tax	2,130.7	3,029.1	3,324.7	3,792.0
Profit after Tax	1,623.3	2,320.1	2,473.4	2,809.7
EPS	6.6	9.3	9.9	11.3
P/Adj. BV (x)	1.8	1.6	1.5	1.3
RoE (%)	7.8	10.4	10.0	10.2

Source : RBL Research

Key Highlights:

- Management expects Q3 FY25 to be challenging, with normalization in Q4 FY25. They anticipate 25% loan growth and remain cautiously optimistic about improving rural and urban demand.
- 2) Concerns include asset quality deterioration in Rural Business Finance and stress in unsecured lending.
- 3) Management lowered its NIM + Fees guidance to 10.50% -11% range for the full year.
- 4) Companies next-gen credit engine, Project Cyclops, has shown improvement, and they have expanded partnerships for personal loans.
- 5) For future growth companies is focusing on new and non-leveraged customer acquisition.
- 6) Expanded partnership with CRED for personal loans.

Net interest income increased by 3.65% QoQ/18.1% YoY

Impairment increased by 39%QoQ/41.1%

Growth in AuM, helped it to grow PAT by 16.9% YoY

Quarterly performance - consolidated

Particulars, Rs cr	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Interest income	3,654	3,169	15.3	3,453	5.8
Finance cost	1,476	1,325	11.4	1,351	9.2
Net interest income	2,178	1,844	18.1	2,101	3.65
Other income	370	314	17.9	332	11.2
Total income	2,547	2,157	18.1	2,434	4.7
Employees cost	549	449	22.3	519	5.7
Other Operating Costs	509	515	(1.2)	601	(15.4)
Total Operating Expenses	1,058	964	9.8	1,121	(5.6)
Impairment on financial instruments	551	396	39.0	390	41.1
Profit before tax	940	797	17.8	922	1.9
Tax	243	203	19.6	237	2.5
Tax rate (%)	25.9	25.5	37bps	25.7	15bps
Profit after tax	696	595	16.9	686	1.5
EPS (Rs)	2.8	2.4	16.3	2.8	1.5

Source : RBL Research

Home loans and LAP showed robust growth of 38.6%/58% on YoY basis

Retail finance grew by 5.4% QoQ/28.2% YoY mainly led by SME Finance and LAP

Retail disbursements increased 11.8% YoY/1.7% QoQ

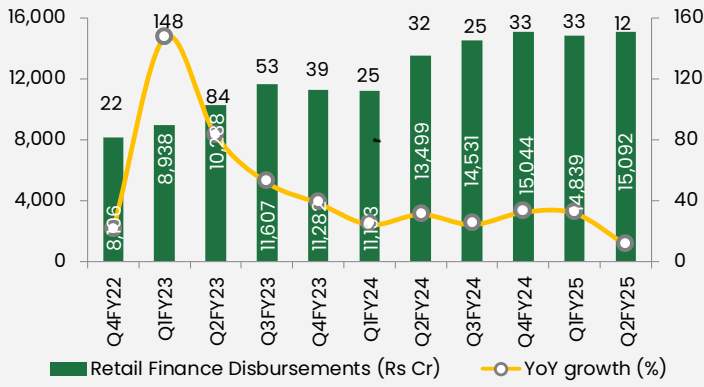
Business parameters – standalone

Particulars, Rs cr	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Book Value					
Farmer Finance	14,488	13,351	8.5	14,204	2.0
Rural Business Finance	26,539	21,672	22.5	25,887	2.5
Two wheeler Finance	12,669	9,518	33.1	12,025	5.4
Personal loan	7,178	6,481	10.8	6,667	7.7
Home Loans	16,930	12,216	38.6	15,690	7.9
LAP	4,801	3,038	58.0	4,272	12.4
Urban Finance	41,578	31,253	33.0	38,654	7.6
SME Finance	5,190	2,413	115.1	4,471	16.1
Retail Finance	88,975	69,417	28.2	84,444	5.4
Disbursement					
Farm Equipment Finance	1,782	1,534	16.2	1,903	(6.4)
Rural Business Finance	5,435	5,740	(5.3)	5,773	(5.9)
Two wheeler Finance	2,393	1,817	31.7	2,621	(8.7)
Personal loan	1,361	1,308	4.1	1,178	15.5
Home Loans	1,791	1,356	32.1	1,656	8.2
LAP	739	378	95.5	588	25.7
Urban Finance	6,284	4,859	29.3	6,043	4.0
SME Finance	1,244	872	42.7	978	27.2
Retail Finance	15,092	13,499	11.8	14,839	1.7

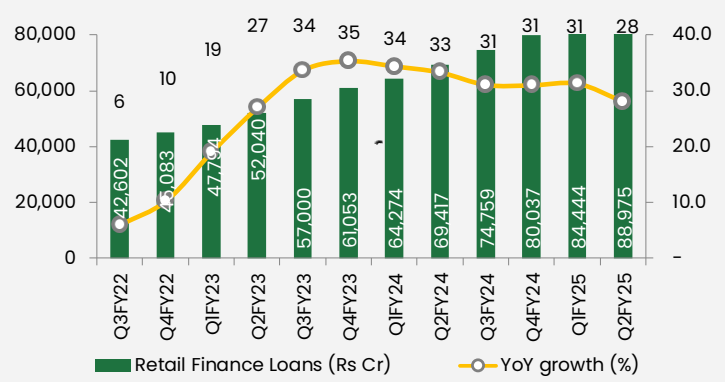
Source : RBL Research

Story in charts

Retail disbursements increased by 11.8% YoY

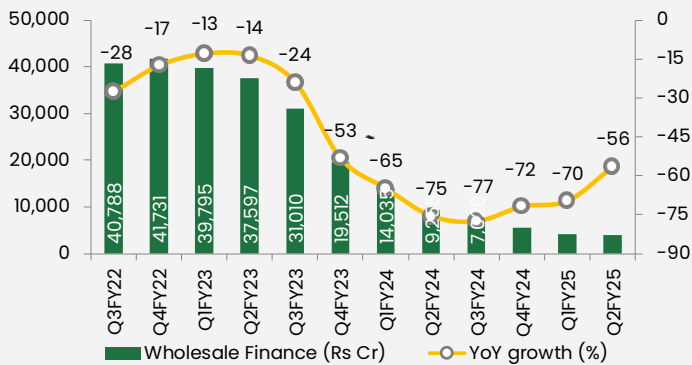


Retail loan book increased by 5.37% QoQ/28.2% YoY

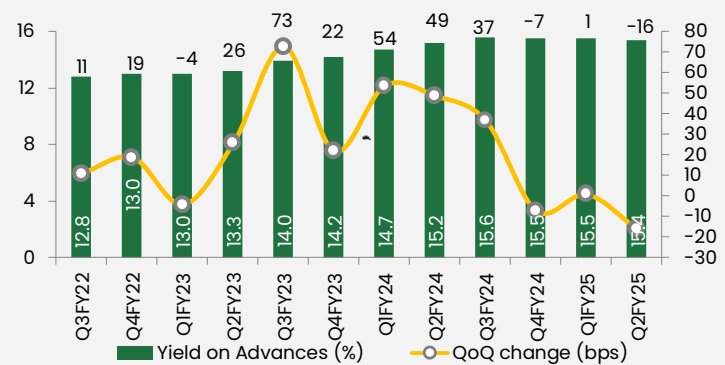


Source : RBL Research

Rundown in wholesale assets continued as it declined by 56.3% YoY

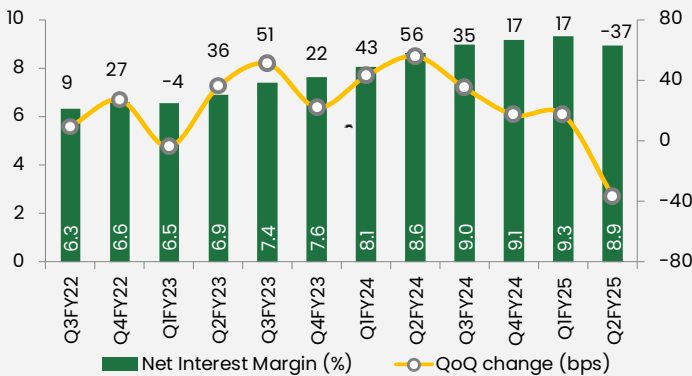


Yields on advances declined by 16bps QoQ to 15.38%

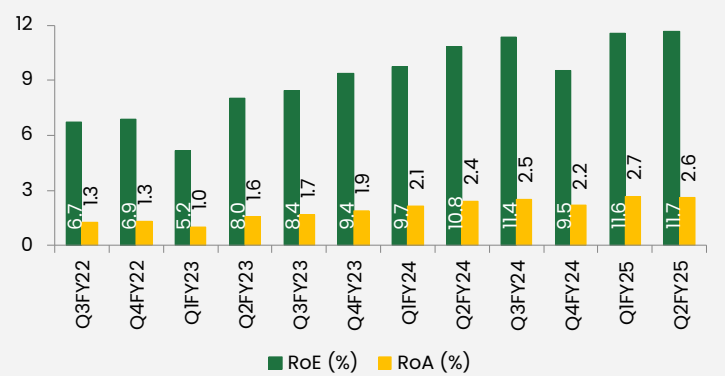


Source : RBL Research

NIMs dropped by 37bps QoQ to 8.94% levels

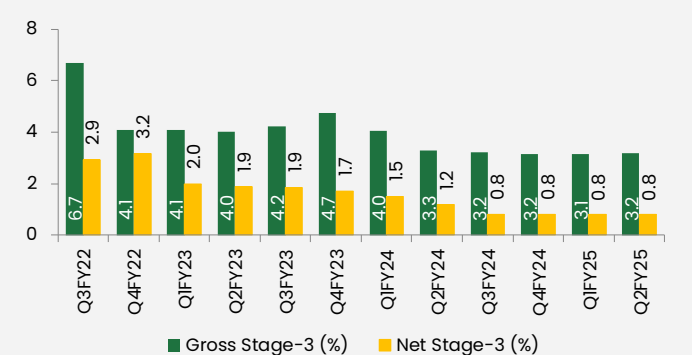


RoE/RoA improved to 11.7%/2.6%

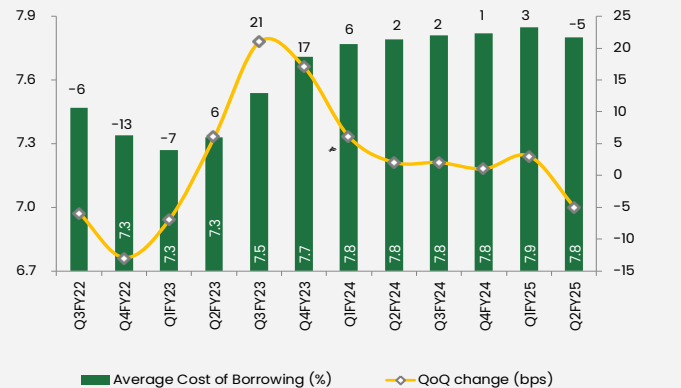


Source : RBL Research

Asset quality saw marginal deterioration during quarter



Average cost of borrowings decreased marginally by 5bps QoQ to 7.8% levels



Source : RBL Research

Income statement – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Interest income	12,565	12,914	14,624	16,585
Other operating revenue	210	667	766	881
Total income	12,775	13,581	15,390	17,466
Other income	527	475	560	661
Total income	13,302	14,055	15,950	18,126
Finance cost	5,797	5,377	6,343	6,858
Net Interest Income	6,768	7,537	8,281	9,727
Fees and commission expen.	1	-	1	1
Impairment on financial instruments	1,669	1,322	1,592	1,926
Employees cost	1,406	1,806	1,914	2,245
Depreciation	111	115	112	134
Misc expenses	2,187	2,468	2,664	3,170
Total expenditure	11,171	11,026	12,625	14,334
Profit before tax	2,131	3,029	3,325	3,792
Tax	172	712	854	986
Profit after tax	1,623	2,320	2,473	2,810
EPS (Rs)	6.6	9.3	9.9	11.3

Source : RBL Research

Balance Sheet – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Cash and bank balances	12,749	4,676	7,742	12,767
Derivative financial instruments	174	186	190	195
Trade and Other Receivables	143	251	401	422
Loans	75,155	81,359	86,241	91,415
Investments	14,366	12,385	11,822	10,659
Other financial assets	90	632	603	544
Total financial assets	1,02,677	99,488	1,07,000	1,16,002
Current and deferred tax assets	2,538	2,149	469	541
Property, plant and equipment	349	355	381	384
Goodwill	13	13	13	13
Other intangible assets	120	132	139	146
Other non-financial assets	644	580	649	727
Total non-financial assets	3,685	3,229	1,651	1,812
Total assets	1,06,362	1,02,718	1,08,651	1,17,814
Trade and other payables	806	1,222	812	878
Debt securities	36,105	29,569	26,505	23,759
Borrowings	44,140	44,430	51,539	60,735
Other financial liabilities	3,404	3,657	3,494	3,339
Total financial liabilities	84,456	78,879	82,351	88,711
Current and deferred tax liabilities	200	203	181	164
Provisions	33	35	39	45
Other non-financial liabilities	57	73	81	91
Total non-financial liabilities	289	311	302	299
Total liabilities	84,744	79,190	82,653	89,010
Share capital	2,480	2,489	2,489	2,489
Other equity	19,049	20,950	23,420	26,226
Equity attributable to owners	21,528	23,439	25,909	28,715
Non controlling interest	89	89	89	89
Total equity	21,618	23,528	25,998	28,804
Total equity and liabilities	1,06,362	1,02,718	1,08,651	1,17,814

Source : RBL Research

Business Parameters – consolidated

Particulars, Rs cr	FY23	FY24	FY25E	FY26E
Retail Finance	61,053	80,037	98,604	1,19,896
Wholesale Finance	19,512	5,528	4,284	4,867
AuM	80,893	85,565	1,02,887	1,24,763
Disbursements	90,735	1,15,269	1,42,934	1,77,238

Source : RBL Research

Valuations (x) – consolidated

Particulars	FY23	FY24	FY25E	FY26E
Book Value per share (BVPS) (Rs.)	86.8	94.2	104.5	115.7
EPS (Rs.)	6.6	9.3	9.9	11.3
Adj. book value per share (Rs.)	86.8	94.2	104.5	115.7
P/E (x)	23.3	16.6	15.5	13.7
P/B (x)	1.8	1.6	1.5	1.3
P/Adj. BV (x)	1.8	1.6	1.5	1.3

Source : RBL Research

Key Ratios – consolidated

Particulars	FY23	FY24	FY25E	FY26E
Yield on advances	13.6	15.3	15.7	15.7
Net Interest Margin	7.1	8.7	7.8	8.6
RoA	1.5	2.3	2.3	2.5
RoE	7.8	10.4	10.0	10.2
Gross stage 3 assets	4.7	3.2	3.0	3.0
Net stage 3 assets	1.5	0.8	0.7	0.7
Provision coverage ratio	69.3	75.5	76.0	76.0

Source : RBL Research

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Rating Methodology

Ratings	Upside
Buy	More than 15%
Accumulate	5% - 15%
Hold	0%- 5%
Sell	Below 0%

Note: RBL Investment ratings (All ratings based on absolute return; All ratings and target price refers to 12 month performance horizon, unless mentioned otherwise).

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S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
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	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
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	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
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	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

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SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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