

Investment Rationale

L&TFH is on track to accomplish its LAKSHYA 2026 goals of retailisation (80% contribution) with retail growth of ~25% CAGR. Asset Quality is improving steadily and GS3 target of less than 3% can be achieved before envisioned. Standard asset coverage will safeguard the balance sheet and we may witness lower credit cost because of provision write-back. With strong operating metrics we estimate a ROA of 1.8% for FY24E. Inexpensive valuation of 1x PBVPS makes L&TFH attractive and we recommend BUY.

Retailisation to drive future growth: The Company has a long term focus on retail book, which the management has reiterated several times. The retail book grew at CAGR of 20% over FY16-22, while rural portfolio grew at a CAGR of 26% over previous six years. At the end of FY22, the retail book share to the total AUM stood at 51% against 26% in FY16. The wholesale book has been witnessing consistent drag down with 47% share at the end of FY22 against 57% in FY16. The defocused business (Infra bond + CRE) contributes insignificant portion of 1.7% of the book. The company is establishing strong market position across businesses with a granular customer base of more than 20 million. L&TFH has nation wide presence in 21 states and 1 UT with 13000+ touch points. The company witnessed highest ever quarterly and yearly disbursement in 4QFY22 which led to growth of 42% YoY in FY22 to ₹249bn of disbursements and a growth of 22% YoY in 4QFY22 to ₹81bn. Owing to enhanced on-ground collection efforts and analytics based resource allocation, the company remained one of the leading retail financiers, as the retail book increased by 6% sequentially. As part of "LAKSHYA 26" goals, L&TFH plans on growing its retail business to 80% of loan book.

Strong liability franchise and healthy ALM: In FY22, the company's long term bonds upgraded from AA+ rating to AAA. A rating upgrade has resulted in lowest ever weighted average cost of funds in FY22 at 7.3%. The company is diversifying its borrowings from banks to ECBs and raised granular liabilities through retail NCDs. L&TFH is consistently maintaining an ALM surplus of less than 1-month surplus of ₹321bn and liquidity surplus for the period of 6-12 is at ₹258bn.

Key Financials (₹ mn)	FY20	FY21	FY22	FY23E	FY24E
Loans & Advances	9,14,632	8,70,301	8,24,691	9,07,160	10,06,948
Total Assets	10,95,455	10,89,726	10,69,023	11,59,390	12,60,303
Net-worth	1,46,934	1,87,733	1,99,481	2,15,910	2,36,274
Net Interest income	57,305	56,161	55,891	62,240	69,708
Pre Provision Profit	52,555	50,310	45,262	50,740	56,635
PAT	17,003	9,710	10,700	16,429	20,364

Key Ratios (%)	FY20	FY21	FY22	FY23E	FY24E
NIM (calculated, %)	5.6	6.6	6.4	6.4	6.4
C/I Ratio (%)	24.5	27.0	34.4	34.0	34.0
GNPA (%)	5.4	5.0	3.8	3.5	3.3
ROA (%)	1.6	0.9	1.0	1.4	1.6
ROE (%)	11.6	5.2	5.4	7.6	8.6
P/BVPS (x)	0.7	1.1	1.0	0.9	0.8

Rating	BUY
Current Market Price (₹)	76
12 M Price Target (₹)	110
Potential upside (%)	45

Stock Data

FV (₹) :	10
Total Market Cap (₹ bn) :	188
Free Float Market Cap (₹ bn) :	60
52-Week High / Low (₹)	101 / 59
2-Year High / Low (₹) :	113 / 52
1 Year Avg. Dly Traded Volume (in lakh)	115
BSE Code / NSE Symbol	533519 / L&TFH
Bloomberg :	LTFH:IN

Shareholding Pattern

(%)	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	66.26	63.50	63.53	63.59
FPIs	6.91	7.86	8.25	8.79
MFs	0.56	1.95	1.84	1.62
Insurance	4.01	4.15	4.68	4.91
Others	22.26	22.54	21.70	21.09

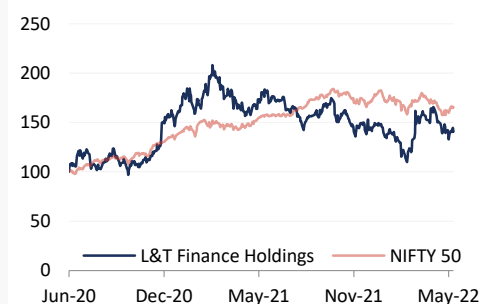
Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
L&TFH	-10.4%	19.7%	-3.8%	-18.7%
Nifty 50	-2.8%	0.5%	-3.6%	5.7%

* To date / current date : June 03, 2022

L&TFH vs Nifty 50



Consistent improvement in asset quality: L&TFH's asset quality improved despite pandemic. The increase in Gross Stage 3 (%) during FY17 and FY18 was primarily due to change in norms. At the start of pandemic, the GS3 was 5.9% which ran down to 3.8% at the end of FY22. At the end of FY22 the GS3 of rural finance, housing finance, and Infrastructure finance stood at 3.97%, 7.83% and 0.75% respectively with PCR of 75%, 29%, and 34%. Moreover, the company is carrying additional provision (outside of PCR) of ₹23.5bn (2.85% of total standard assets). We believe the additional provisions may counter impact any future stress and may be gradually released (write-back) in coming quarters. We estimate the GNPA of 3.3% for FY24E with NNPA of 1.5%. The management goal of GS3 and NS3 of <3% and <1% for FY26 can be achieved before than envisaged.

LAKSHYA 26; ROA target of 2.8%: Factoring strong growth in high yielding retail book (80% contribution target by FY26.), normalization of NPA ratio (GS3: <3%, NS3: <1%) and gradually improving operating metrics; we believe the FY26 ROA target of 2.8% is likely to be achieved. We estimate the overall loan book to grow at 11% CAGR for FY22-24. With consistent NIMs of 6.4% and C/I ratio of 34%, we expect the PPOP to grow at 12% during FY22-24. Thus estimating a PAT growth of 54% YoY in FY23E and 24% YoY for FY24E to translate in ROA of 1.6% in FY24.

Outlook and Valuation

Factoring lower weighted average cost and improved collections along with strong business momentum backed by accelerated retail growth, we see immense potential in the stock for long term. We recommend BUY on L&TFH with a target price of ₹110; based on 1.15x FY24E BVPS of 96.

Exhibit 1 : Retail book gaining share

(₹ mn)	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Retail book	1,49,570	1,76,840	2,59,170	3,60,690	3,93,120	4,08,240	4,50,840
Wholesale book	3,33,890	3,98,980	4,58,470	5,26,879	5,38,420	5,04,880	4,17,310
Defocused book	99,101	90,680	1,35,900	1,03,650	52,300	27,020	15,260
Total Book	5,82,561	6,66,500	8,53,540	9,91,219	9,83,840	9,40,140	8,83,410
% Share							
Retail book	25.7	26.5	30.4	36.4	40.0	43.4	51.0
Wholesale book	57.3	59.9	53.7	53.2	54.7	53.7	47.2
Defocused book	17.0	13.6	15.9	10.5	5.3	2.9	1.7
Total Book	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Company, LKP Research

Exhibit 2 : Asset Quality Improvement

Y/E	FY16	FY17	FY18	FY19	FY20	FY21	FY22
GS3 (%)	4.9	7.1	8.7	5.9	5.4	5.0	3.8
NS3 (%)	3.8	5.0	3.3	2.4	2.3	1.6	2.0
PCR (%)	22	30	62	59	57	68	47

Source: Company, LKP Research

Exhibit 3 : Quarterly Finances

(₹ mn)	4QFY21	3QFY22	4QFY22	YoY (%)	QoQ (%)
Interest Income	31,580	27,870	28,220	-11	1
Interest Expenses	16,080	14,180	13,970	-13	-1
Net Interest income	15,500	13,690	14,250	-8	4
NIM (%)	6.4	6.3	6.6	2.7	4.3
Other income	4,260	3,890	3,450	-19	-11
Net Operating Revenue	19,760	17,580	17,700	-10	1
Total Opex	4,950	6,030	6,340	28	5
C/I Ratio (%)	25.1	34.3	35.8	43	4
Pre Provision Profit	14,810	11,550	11,360	-23	-2
Provisions	6,530	7,020	6,510	-0	-7
PBT	8,280	4,530	4,850	-41	7
Tax	5,610	1,270	1,430	-75	13
PAT	2,670	3,260	3,420	28	5
YoA (%)	13.1	12.8	13.0	-0	1
Credit cost (%)	2.7	3.2	3.0	11	-7
NIM (%)	6.4	6.3	6.6	3	4
ROA (%)	1.6	1.3	1.3	-16	5
Debt/Equity (x)	4.7	4.2	4.3	-10	1
ROE (%)	6.3	6.7	6.9	10	2

Source: Company, LKP Research

Exhibit 4 : Credit Quality woes behind

(₹ mn)	Pre-COVID 3QFY20	COVID-1.0 1QFY21	COVID-2.0 1QFY22	Recent Qtr 4QFY22
Gross Stage 3	56,620	49,390	48,810	32,490
GS3 (%)	5.94	5.24	5.75	3.80
Net Stage 3	24,580	15,530	16,910	16,810
NS3 (%)	2.67	1.71	2.07	2.00
PCR (%)	57.0	69.0	65.0	48.0

Source: Company, LKP Research

Exhibit 5 : Loan Book Mix

(₹ mn)	4QFY21	3QFY22	4QFY22	YoY (%)	QoQ (%)
Farm Equipment	1,02,610	1,12,101	1,13,170	10	1
2W Finance	71,220	73,060	74,620	5	2
Micro Loans	1,22,070	1,19,550	1,32,780	9	11
Consumer Loans	4,900	16,960	23,010	370	36
Rural Finance	3,00,800	3,21,671	3,43,580	14	7
Home Loans	73,330	74,630	78,370	7	5
LAP	34,110	29,570	28,270	-17	-4
Real Estate Finance	1,29,450	1,16,030	1,12,100	-13	-3
Housing Finance	2,36,890	2,20,230	2,18,740	-8	-1
Infrastructure Finance	3,75,430	2,91,850	3,05,210	-19	5
SME Finance	-	160	610	-	281
Focused Business	9,13,120	8,33,911	8,68,140	-5	4
De-Focused	27,020	21,620	15,260	-44	-29
Total Book	9,40,140	8,55,531	8,83,400	-6	3
(%)	4QFY21	3QFY22	4QFY22	YoY (bps)	QoQ (bps)
Farm Equipment	10.9	13.1	12.8	190	-29
2W Finance	7.6	8.5	8.4	87	-9
Micro Loans	13.0	14.0	15.0	205	106
Consumer Loans	0.5	2.0	2.6	208	62
Rural Finance	32.0	37.6	38.9	690	129
Home Loans	7.8	8.7	8.9	107	15
LAP	3.6	3.5	3.2	-43	-26
Real Estate Finance	13.8	13.6	12.7	-108	-87
Housing Finance	25.2	25.7	24.8	-44	-98
Infrastructure Finance	39.9	34.1	34.5	-538	44
SME Finance	-	0.0	0.1	7	5
Focused Business	97.1	97.5	98.3	115	80
De-Focused	2.9	2.5	1.7	-115	-80
Total Book	100.0	100.0	100.0	-	-

Source: Company, LKP Research

Exhibit 6 : Capital Allocation & ROE Bridge: 4QFY22

(₹ mn)	PAT	Networth	ROE	PAT (YoY)
Rural Finance	3,001	61,890	19.7	58
Housing Finance	121	46,360	1.0	-93
Infrastructure Finance	332	65,690	2.1	-67
Lending Business	3,454	1,73,940	8.0	-25
Investment Management	510	11,650	-	-
Business Total	3,964	1,85,590	8.5	-23

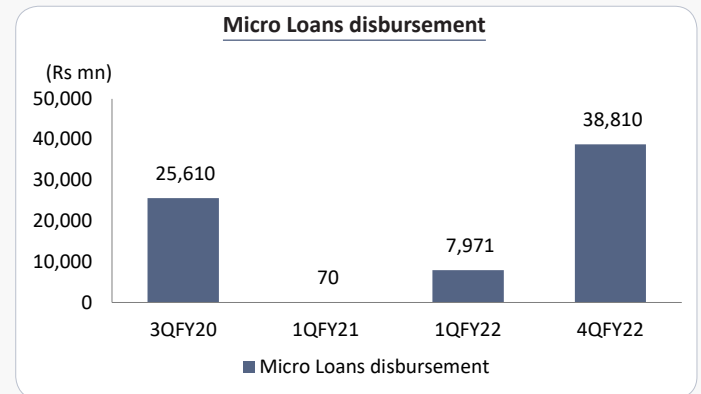
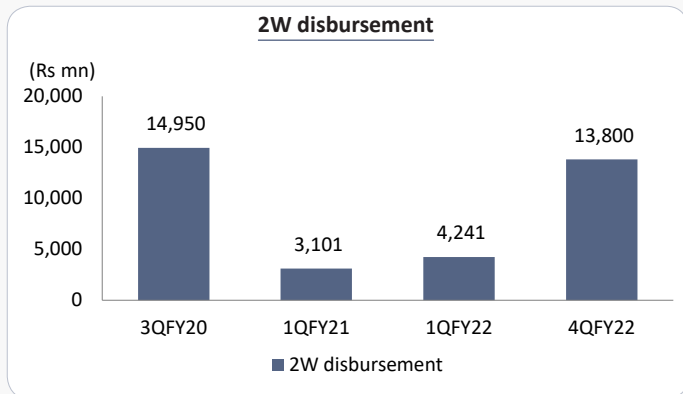
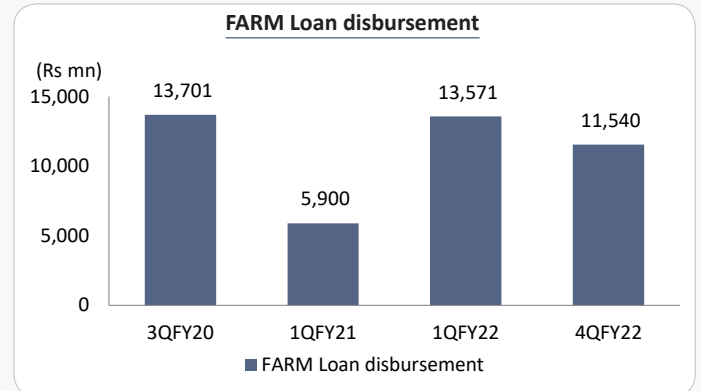
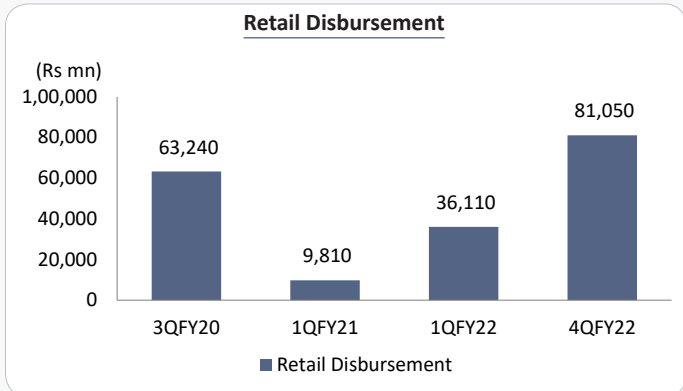
Source: Company, LKP Research

Exhibit 7 : ALM Surplus (as on 31st Mar 2022)

(₹ mn)	Inflow	Outflow	Surplus
< 1 months	3,82,140	60,501	3,21,639
1 - 3 months	4,77,791	1,53,663	3,24,128
3 - 6 months	3,68,991	1,75,291	1,93,700
6 - 12 months	6,30,782	3,73,141	2,57,641

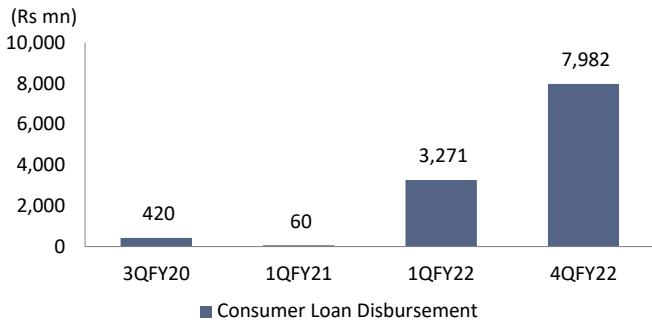
Source: Company, LKP Research

Retailisation in Charts

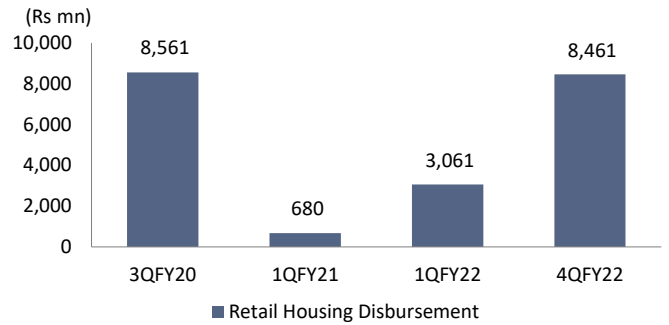


Source: Company, LKP Research

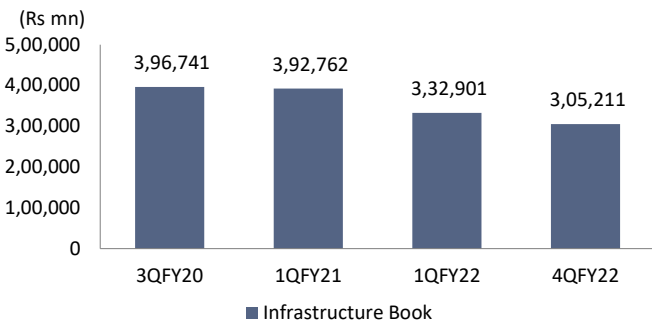
Consumer Loan Disbursement



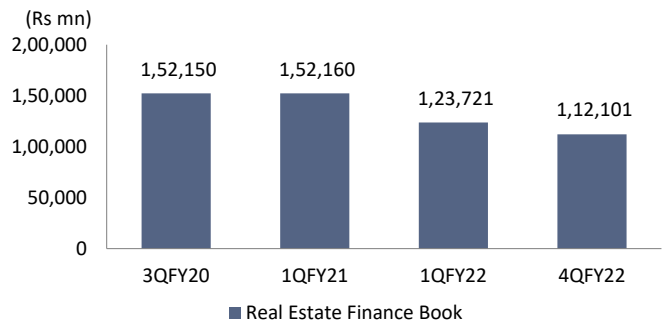
Retail Housing Disbursement



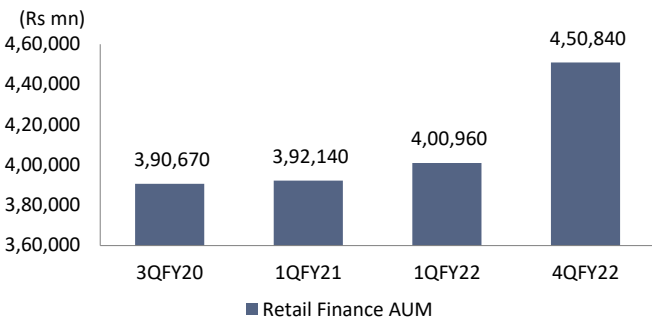
Moderation in Infrastructure Book



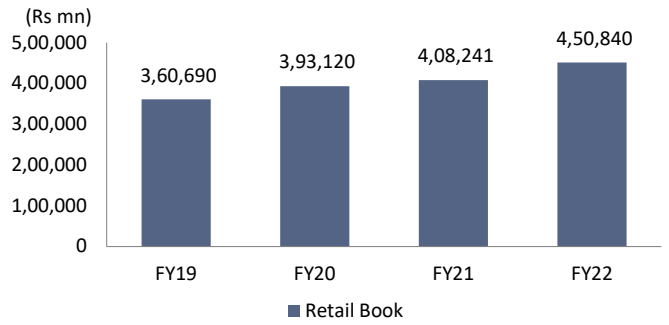
Real Estate Finance is in line with strategy



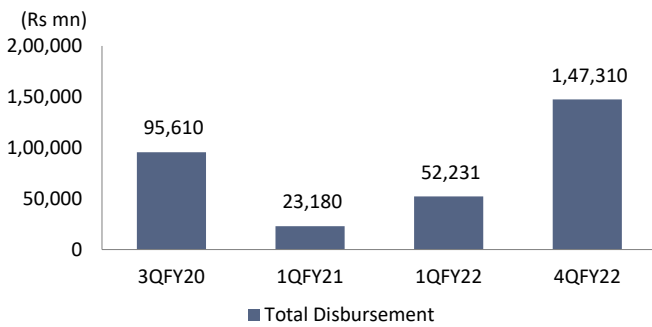
Retail Book to be focus area



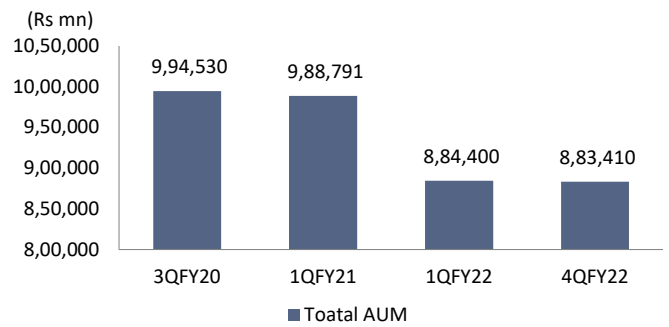
Retail Finance YoY pace healthy



Disbursement at company level gaining pace



Total Book coming back to growth trajectory



Source: Company, LKP Research

Exhibit 8 : Balance Sheet

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E
Equity share capital	20,051	24,691	24,740	24,740	24,740
Reserves	1,26,883	1,63,042	1,74,741	1,91,170	2,11,534
Net-worth	1,46,934	1,87,733	1,99,481	2,15,910	2,36,274
Borrowings	8,85,551	8,36,461	8,15,532	8,88,930	9,68,934
Other Liabilities & Provisions	62,970	65,532	54,010	54,550	55,096
Total Liabilities	10,95,455	10,89,726	10,69,023	11,59,390	12,60,303
Cash & Cash Equivalent	78,041	84,271	79,701	83,686	87,870
Investments	59,792	88,722	1,19,172	1,26,322	1,33,902
Loans & Advances	9,14,632	8,70,301	8,24,691	9,07,160	10,06,948
YoY (%)	5.3	-4.8	-5.2	10.0	11.0
Fixed asset	11,621	11,621	5,321	5,374	5,428
Other assets	31,369	34,811	40,138	36,847	26,155
Total Assets	10,95,455	10,89,726	10,69,023	11,59,390	12,60,303

Source: Company, LKP Research

Exhibit 9 : Income statement

(₹ mn)	FY20	FY21	FY22	FY23E	FY24E
Interest Income	1,32,451	1,28,191	1,13,561	1,24,380	1,38,062
Interest Expenses	75,146	72,030	57,670	62,140	68,354
Net Interest income	57,305	56,161	55,891	62,240	69,708
<i>NIM (calculated, %)</i>	<i>5.6</i>	<i>6.6</i>	<i>6.4</i>	<i>6.4</i>	<i>6.4</i>
Other income	12,321	12,710	13,071	14,640	16,103
Net Operating Revenue	69,626	68,871	68,962	76,880	85,811
Total Opex	17,071	18,561	23,700	26,139	29,176
<i>C/I Ratio (%)</i>	<i>24.5</i>	<i>27.0</i>	<i>34.4</i>	<i>34.0</i>	<i>34.0</i>
Pre Provision Profit	52,555	50,310	45,262	50,740	56,635
<i>PPOP Growth (YoY, %)</i>	<i>-2</i>	<i>-4</i>	<i>-10</i>	<i>12</i>	<i>12</i>
Provisions	25,761	33,941	30,301	27,271	27,544
PBT	26,794	16,369	14,961	23,470	29,092
Tax	9,791	6,659	4,261	7,041	8,728
PAT	17,003	9,710	10,700	16,429	20,364
<i>PAT Growth (YoY, %)</i>	<i>-24</i>	<i>-43</i>	<i>10</i>	<i>54</i>	<i>24</i>

Source: Company, LKP Research

Exhibit 10 : Valuation

	FY20	FY21	FY22	FY23E	FY24E
FV (₹)	10	10	10	10	10
Shares O/s (calculated)	2,005	2,469	2,474	2,474	2,474
EPS (₹)	8.5	3.9	4.3	6.6	8.2
BVPS (₹)	73	76	81	87	96
ROA (%)	1.6	0.9	1.0	1.4	1.6
ROE (%)	11.6	5.2	5.4	7.6	8.6
P/BVPS (x)	0.7	1.1	1.0	0.9	0.8

Source: Company, LKP Research

Exhibit 11 : Profitability Ratios

	FY20	FY21	FY22	FY23E	FY24E
YOA (%)	13.4	12.9	12.9	13.0	13.1
COF (%)	8.6	8.4	7.0	7.1	7.1
Spread (%)	4.8	4.5	5.9	5.9	6.0
NIM (%)	5.6	6.6	6.4	6.4	6.4
ROE (%)	11.6	5.2	5.4	7.6	8.6
ROA (%)	1.6	0.9	1.0	1.4	1.6

Source: Company, LKP Research

Exhibit 12 : Asset Quality

	FY20	FY21	FY22	FY23E	FY24E
GNPA (%)	5.4	5.0	3.8	3.5	3.3
NNPA (%)	2.3	1.6	2.0	1.7	1.5

Source: Company, LKP Research

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