

Key risks to investing in I-direct Instinct

- It is a quick pitch note, which captures the essence of an idea in brief
- Instinct idea may be based on management interaction or some immediate triggers that may have a positive impact on the future of the company
- Target price is based on forward estimates, which will be published along with Detailed Coverage Report or Nano Nivesh report as the case may be
- The intent is to capture price action by coming out with a gist, which may or may not be an interim report between management interaction and publication of the final report
- The fair value of I-direct Instinct stocks is subject to expected growth potential in the future. Though due diligence has been done to a fair extent, the actualisation of growth still has a degree of uncertainty attached to it. Customers are advised to allocate a small proportion of their investible income to these stocks and diversify well

Retailisation story at attractive valuation...

L&T Finance Holding (LTFH) is a leading NBFC catering to the diverse financing needs of served and underserved customers in urban as well as rural areas. LTFH offers financial assistance in various segments including consumer loans, two-wheeler loans, home loans, micro loans, farm loans and SME loans. Backed by a strong parent, the lender has been assigned "AAA" rating by rating agencies. Its distribution network remains strong with substantial dealer penetration (2500+ dealers in farm equipment and 5500+ tie-ups in two-wheeler segment), 2 crore customers (database) spread across 21 states and one union territory.

Re-orientation of balance sheet towards retailisation

In April 2022, LTFH announced "Lakshya 2026", which was targeted towards retailisation and a shift from product based approach to customer focused approach to pedal business growth as well as improve return ratios. As per the plan, the recalibrated product growth strategy was adopted with customised products in mature markets [farm equipment, rural group loans (MFI) and two wheeler finance] with focus on newer retail segment (consumer loans, home loans, LAP and SME loans) with substantial growth potential.

The management aimed to run down the wholesale book and increase retail share in total loans. Accordingly, in the last four quarters, the share of retail loans has increased from 51% to 75% while the proportion of wholesale book has declined from 49% to 25% (from ₹ 43257 crore to ₹ 19840 crore). Induction of new Chairman SN Subrahmanyam in February 2022 hastened the process of restructuring further.

Going ahead, AUM growth is expected to be driven by the retail segment – newer segments seen driving faster traction while existing mature segments are expected to witness steady growth with a gradual gain in market share. Increase in retail proportion will continue to aid NIMs trajectory (calculated NIMs at 7.5% in FY23 vs. 6.3% in FY22), which is expected to improve to ~8-9% levels.

LTFH has been focusing on accelerating retailisation and, thus, leveraging fintech capabilities through automation in order to make the customer journey hassle free and quick. All this should aid sustainable retail AUM growth (31% YoY in FY24E and 24% YoY in FY25E) and gradual improvement in efficiency. However, CI ratio could remain elevated at ~40-41% in the initial phase and subsequently witness improvement at ~38-39% level.

Leaner business structure for improved focus

LTFH's transformation process includes a leaner, simpler organisation structure and hierarchy. LTFH, in its second cycle, has simplified its corporate structure as well as business model. It has exited unfocused business lines (sold its L&T AMC business segment for ₹ 4249 crore), stopped growing in the real estate vertical and is in the process of consolidating L&T Finance and L&T Infra Credit wherein NCLT approval is awaited. A leaner structure will enable improved focus thereby resulting in healthy growth and improved performance.

RoAUM trajectory to improve to ~2.6-2.7% in FY25E

Focus on new business segments will aid yields and, thus, expansion of NIMs. With continued investment in tech, people and branch addition, efficiency is seen improving gradually. Focus on accelerating business growth & provision buffer of ~2% is expected to keep credit cost largely steady, thus aiding earnings momentum. We expect return on AUM (RoAUM) to improve from ~2% in FY23 to ~2.6-2.7% by FY25E.

Valuation & Outlook

With the retail loan book gaining traction to almost >90% of outstanding AUM by FY24E, valuation multiple should witness a re-rating. Further, contained GNPA, NNPA guidance of <3%, <1%, respectively, provide comfort. At the CMP, LTFH currently trades at ~1x ABV offering room for further expansions as RoE, RoA are expected to reach ~10%, ~2.1%, respectively, in FY23-25E. Hence, we ascribe a target price of ₹ 125/share, valuing at ~1.3x FY25E ABV and recommend **BUY** rating on the stock.



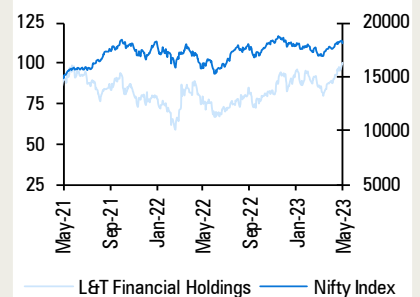
Particulars

Particulars	Amount
Market Capitalisation	₹ 25079 crore
52 week H/L	102 / 66
Net Worth	21,528
Face value	₹ 10
FII Holdings (%)	11.4
DII Holdings (%)	6.6

Risks to our call

- 1) Elevated incremental cost while downsizing wholesale book
- 2) Slower achievement in target set for FY26
- 3) Higher slippages from unsecured portfolio in case of macro volatility

Price performance



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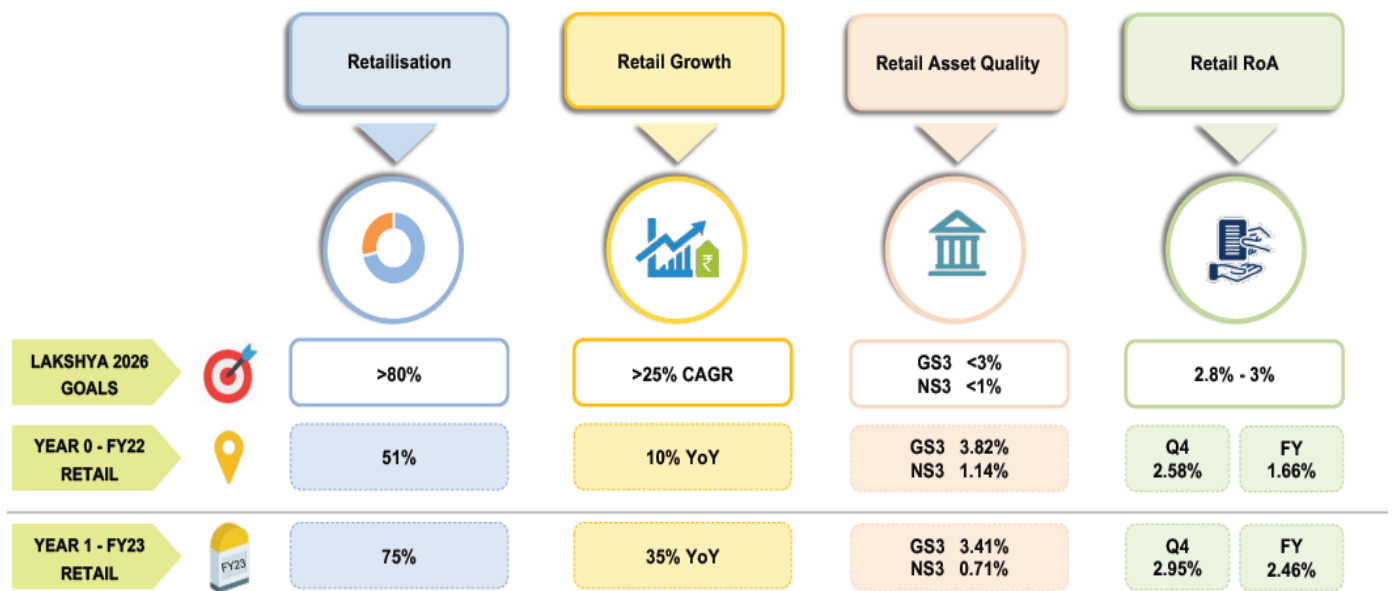
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Exhibit 1: LTFH product mix

As of March 2023	Loan book (₹ crore)	Disbursement (₹ crore)	Yields (%)	Tenure (Yrs)	ATS (₹)
Rural Finance	18,693	16,910	24%	2	1-2.5 lakhs
Farmer Finance	12,819	6,450	16-18%	4-5	1-2.5 lakhs
2W segment	8,960	7,110	22%	2	1-2.5 lakhs
HL / LAP	13,410	4,730	9.9.5%	20-25	20 lakhs to 7.5 crore
Consumer Finance	5,471	4,886	13-17%	1-2	1-2.5 lakhs
SME portfolio	1,378	1,473	13-16%	5	5-30 lakhs
Acquired	322	506	-	-	-
Retail	61,053	42,065	16%	-	-
Wholesale	19,512	4,910	10%	-	-
De-focussed	328	-	-	-	-
Total	80,893	46,975	14%	-	-

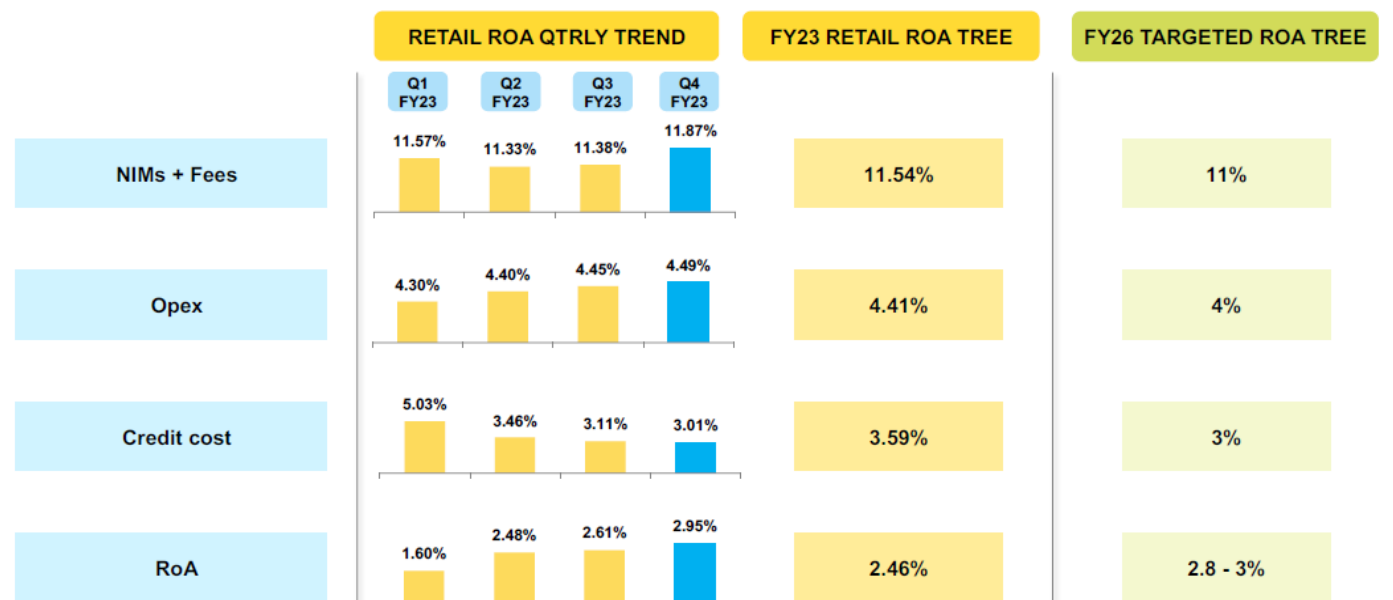
Source: Company, ICICI Direct Research

Exhibit 2: Lakshya 2026 vs. FY23 performance



Source: Company, ICICI Direct Research

Exhibit 3: On track performance towards targeted RoA...



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Interest Earned	11,142.0	12,087.0	12,677.2	14,564.3
Interest Expended	5,575.0	5,821.0	5,787.3	6,278.3
Net Interest Income	5,567.0	6,266.0	6,889.9	8,286.1
growth (%)		12.6%	10.0%	20.3%
Non Interest Income	888.0	1,118.0	1,351.7	1,476.5
Net Income	6,455.0	7,384.0	8,241.6	9,762.6
Opex	2,164.0	2,929.0	3,379.1	3,807.4
Operating Profit	4,291.0	4,455.0	4,862.5	5,955.2
Provisions	2,746.0	2,308.0	2,278.7	2,567.7
PBT	1,545.0	(346.0)	2,583.8	3,387.5
Taxes	411.0	103.0	646.0	846.9
PAT (Defocussed business)	(64.0)	(8.0)	-	-
Net Profit	1,070.0	1,623.0	1,937.9	2,540.6
growth (%)		51.7%	19.4%	31.1%
EPS (₹)	4.3	6.5	7.8	10.2

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Sources of Funds				
Capital	2474	2480	2480	2480
Reserves and Surplus	17474	19049	20987	23527
Networth	19948	21528	23466	26007
Borrowings	85201	83043	84704	99951
Other Liabilities & Provisions	21701	23319	26976	34066
Total	106902	106362	111680	134016
Application of Funds				
Advances	86753	80600	84630	101556
Other assets	20149	25762	27050	32460
Total	106902	106362	111680	134016

Source: Company, ICICI Direct Research

Exhibit 5: Key Ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Valuation				
No. of Equity Shares (Crores)	247.4	248.0	248.0	248.0
EPS (₹)	4.3	6.5	7.8	10.2
BV (₹)	80.6	86.8	94.6	104.9
ABV (₹)	73.8	82.1	90.5	100.2
P/E	23.4	15.4	12.9	9.9
P/BV	1.3	1.2	1.1	1.0
P/ABV	1.4	1.2	1.1	1.0
Yields & Margins (%)				
Net Interest Margins	6.3	7.5	8.3	8.9
Yield on assets	12.5	14.4	15.3	15.6
Avg. cost on borrowings	6.4	6.9	6.9	6.8
Quality and Efficiency (%)				
Cost to income ratio	33.5	39.7	41.0	39.0
Loan to borrowing (%)	101.8	97.1	99.9	101.6
GNPA	4.1	4.7	3.9	3.7
NNPA	2.0	1.5	1.2	1.1
RoE	5.5	7.8	8.6	10.3
RoA	1.0	1.5	1.8	2.1
RoAUM	1.2	1.9	2.3	2.7

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios (%)				
(Year-end March)	FY22	FY23	FY24E	FY25E
Total assets	-1.9%	-0.5%	5.0%	20.0%
Advances	-5.0%	-7.1%	5.0%	20.0%
Net interest income	-5.7%	12.6%	10.0%	20.3%
Operating expenses	-9.7%	35.4%	15.4%	12.7%
Net profit	12.8%	51.7%	19.4%	31.1%
Net worth	6.3%	7.9%	9.0%	10.8%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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