MIRAE ASSET Sharekhan

L&T Finance Holdings Ltd

Guiding for recovery

NBFC		Sharekhan code: L&TFH	
Reco/View: Buy	↔	CMP: Rs. 190	Price Target: Rs. 240 ↑

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

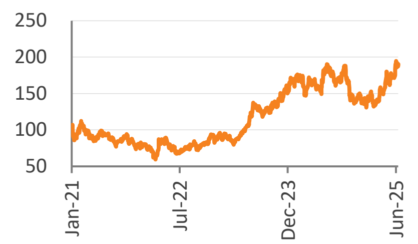
Company details

Market cap:	Rs. 47,462 cr
52-week high/low:	Rs. 197 / 129
NSE volume: (No of shares)	58.0 lakh
BSE code:	533519
NSE code:	L&TFH
Free float: (No of shares)	80.0 cr

Shareholding (%)

Promoters	66.2
FII	5.5
DII	13.3
Others	15.0

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	11.0	26.9	39.2	3.3
Relative to Sensex	9.5	19.0	33.6	-3.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- The company expects credit costs to normalise in H2FY26 as stress in MFI segment seems to be bottoming out.
- Implementation of MFIN Guardrails 2.0 would have a limited impact as the company has a relatively low proportion of overleveraged customers, while the effect of the ordinance is manageable in Karnataka and Tamil Nadu.
- The company has guided for a 20% near-term loan growth, which may inch up to ~25% gradually. It remains committed to its target profitability metrics — while NIMs would come off, opex improvements and lower credit costs will help to offset impact.
- We reiterate a Buy rating with a revised PT of Rs. 240. The stock trades at 1.7x/1.5x its FY2026E/FY2027E ABV estimates.

LTFH remains assertive on reduction in credit cost and improvement in Asset quality in the MFI space from H2FY26. The MFIN Guardrails 2.0 will help build quality portfolios in the long term, also has limited impact in the short term. The Tami Nadu government has introduced new bill against coercive recoveries. The company has an exposure of Rs. ~6,000 crore in Tamil Nadu, however given the experience in Karnataka it does not seem to pose a meaningful risk. When Karnataka implemented a new bill, recoveries in the first month were impacted but later it improved meaningfully. On operational level, the franchise is making significant structural changes wherein new credit underwriting engines have been deployed, targeting prime segments which would ultimately improve the overall quality of the portfolio, resulting in lower credit costs. The company has guided for 20% near-term loan growth, which may inch up to ~25% gradually. It remains committed to its target profitability metrics—while NIMs would come off, opex improvements and lower credit costs will help to offset the impact.

- **Growth outlook:** AUM growth has moderated to 14% y-o-y in FY25 due to slowdown in the MFI segment, two-wheeler, and farm equipment loans while mortgage, consumer loans, tractor loans and SME loans reported strong performance. Focus is to grow urban business — personal loans, consumer durables, home loans and LAP, along with select rural segments of tractors, micro-LAP (semi-urban) and gold loan as it would bring down volatility in its business model. Growth in micro-loans will likely moderate to the mid-to-high teens. The company has guided for 20% near-term loan growth, which may inch up to ~25% gradually.
- **Margin outlook:** Overall (NIMs+ fees) in FY25 was slightly lower at 10.59% vs 10.67% in FY24 on account of loan mix change which led to decline in yields. Reversal of interest on NPA and slowdown in micro loans, two-wheeler loans and farm equipment loans led to lower yields. The company is making significant structural changes wherein new credit underwriting engines have been deployed, targeting prime segments which would ultimately improve the overall quality of the portfolio but will come with lower yield. To counter the yield pressure, it plans to expand the gold loans, micro-LAP loans, PL etc which are high margin business. It is also looking to implement several fee-generation initiatives. Overall, NIM plus fees are expected to trend at 10 -10.5% in FY2026 (vs 10.59% in FY25).
- **Lower opex and credit cost to support profitability:** The company expects operating leverage will kick in gradually as investments have been done largely, leading to gradual moderation in cost ratios. However, it will continue to reflect near-term asset quality and earnings pressure due to ongoing challenges in MFI segment however on the positive side, it expects normalisation in credit costs in H2FY26 as stress in the MFI segment seems to be bottoming out. Collection efficiency has started showing signs of improvement. The implementation of MFIN Guardrails 2.0 is expected to have a limited impact as the company has a relatively low proportion of overleveraged customers while the impact of the ordinance is manageable in Karnataka and Tamil Nadu. Additionally, it has macro-prudential provision of Rs. 575 crore.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 240: Stress in the unsecured segment is a near-term headwind, which the company will navigate and come out stronger. The company has already provided for most of the stress book through a combination of credit costs and excess balance sheet provisions. It remains assertive on reduction in credit costs and improvement in asset quality in the MFI space from H2FY26. We expect AUM/PAT CAGR of 22%/24% for FY25-27. Overall, RoA/RoE is expected to improve to 2.6%/14% in FY27. The stock trades at 1.7x/1.5x its FY2026E/FY2027E ABV estimates.

Key Risks

Higher-than-expected stress in the portfolio in the MFI space and in the state of Tamil Nadu, continued slow growth due to calibration of portfolio, lower margins.

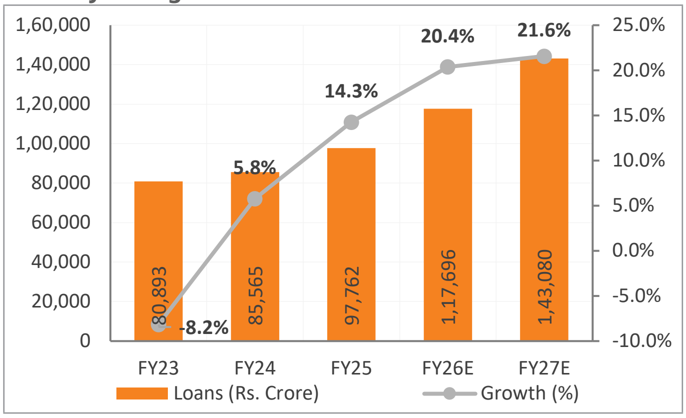
Valuation Rs cr

Particulars	FY23	FY24	FY25	FY26E	FY27E
NII	6,768	7,536	8,667	10,122	12,247
PAT	1,958	2,316	2,643	3,140	4,075
EPS (Rs.)	9.0	9.2	10.6	12.5	16.2
P/E (x)	21.1	20.5	17.8	15.1	11.6
P/BV (x)	1.8	2.0	1.9	1.7	1.5
ROA (%)	1.8	2.2	2.4	2.4	2.6
ROE (%)	9.4	10.3	10.8	11.7	13.9

Source: Company; Mirae Asset Sharekhan estimates

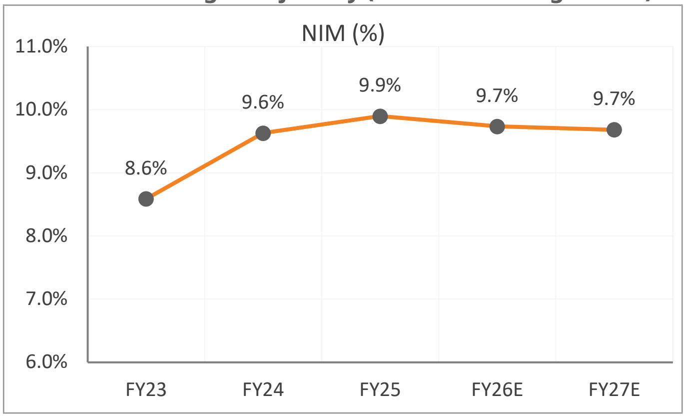
Financials in charts

Healthy AUM growth outlook



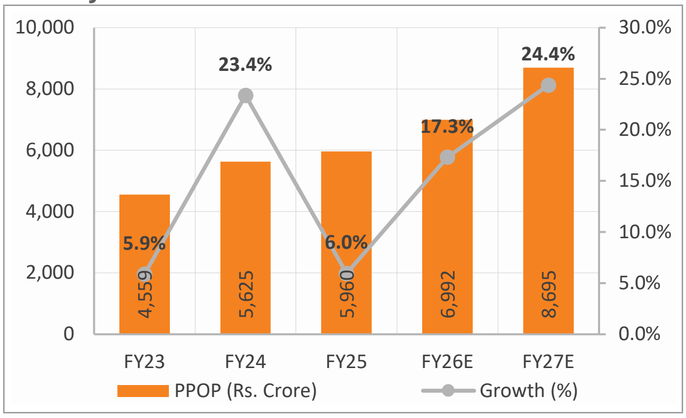
Source: Company; Mirae Asset Sharekhan Research

Net Interest Margin trajectory (NIM % of average loans)



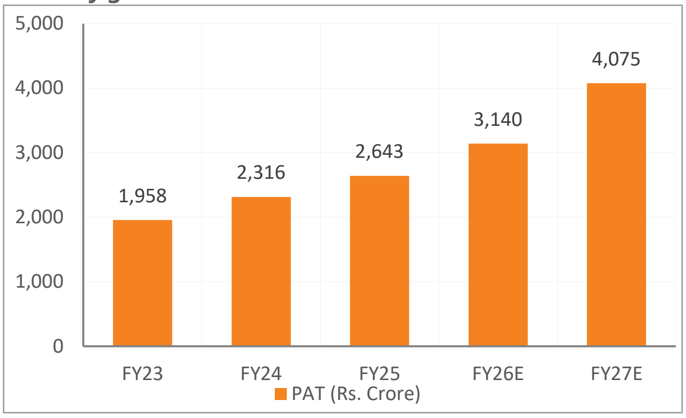
Source: Company; Mirae Asset Sharekhan Research

Healthy PPOP and Growth



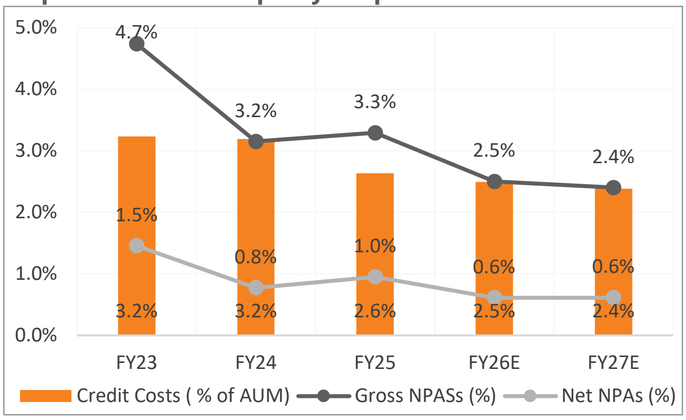
Source: Company; Mirae Asset Sharekhan Research

Healthy growth in PAT



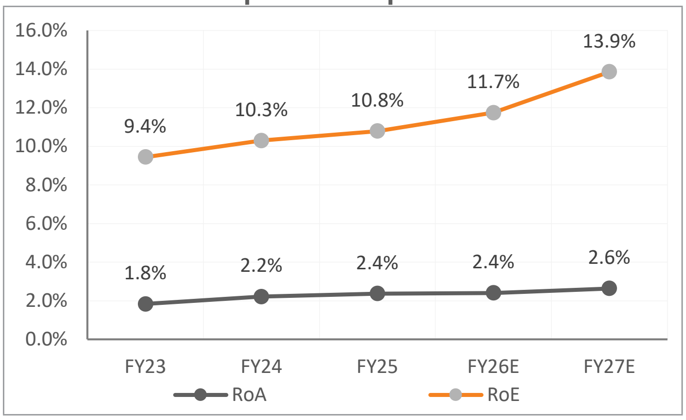
Source: Company; Mirae Asset Sharekhan Research

Improvement in Asset quality is expected to reduce credit costs



Source: Company; Mirae Asset Sharekhan Research

Return Ratios are expected to improve



Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

Sector View – Improving outlook as policy tailwinds play a key role

Demand for retail assets has moderated and asset quality slightly improved. MFI and unsecured vertical have not been performing well over the last couple of quarters due to overleveraging, and regulatory headwinds. However, it is likely to improve in H2FY26 due to improving conditions in the MFI space, policy support, reduction in the repo rate and improving system liquidity. NBFCs having a diverse product offering, strong credit underwriting, healthy liquidity buffers, strong risk management framework, healthy liability franchise, and a well-capitalised balance sheet are well-poised for growth. Favourable policies and macros are expected to play important role for medium term.

Company Outlook – Improving outlook for the company due to receding headwinds and initiatives

LTFH has transformed itself into a retail franchise. The company is realigning its strategies by repositioning its portfolio growth from product-based to customer-centric. It is focusing on cross-selling, upselling along with using deep analytics to understand various nuances like business selection, dealer selection, sale volumes, market positioning in various segments, portfolio vintage including customer behaviour, counter share performance, and distribution network, which are key positives. For improving on the operational front, it has been investing on marketing and technologies along with process improvement. Investment in technology and tranformation of process system are likely to help to build quality portfolio and reduce credit costs. On segmental level, the MFI segment has been showing signs of improvement and we expect gradual improvement in asset quality and credit costs from H2FY26 on higher recoveries and policy tailwinds. the company's other segments, retail focused has been doing well. Calibrated growth of MFI segment is expected to be offset by growth in portfolio. The company is also focusing on prime customers which will help to build quality portfolio. Besides, the company is expected to get benefit of policy tailwinds.

Valuation – Maintain Buy with a revised PT of Rs. 240

Stress in the unsecured segment is a near-term headwind, which the company will navigate and come out stronger. The company has already provided for most of the stress book through a combination of credit costs and excess balance sheet provisions. It remains assertive on reduction in credit costs and improvement in asset quality in the MFI space from H2FY26. We expect AUM/PAT CAGR of 22%/24% for FY25-27. Overall, RoA/RoE is expected to improve to 2.6%/14% in FY27. The stock trades at 1.7x/1.5x its FY2026E/FY2027E ABV estimates.

Peer Comparison

Particulars	CMP (Rs / Share)	MCAP (Rs Cr)	P/E (x)		P/B (x)		RoE (%)		RoA (%)	
			FY26E	FY27E	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
LTFH	190	47,463	15.1x	11.6x	1.7x	1.5x	11.7	13.9	2.4	2.6
Cholamandalam	1,558	1,31,000	24.1x	19.8x	4.3x	3.4x	20.8	20.7	2.4	2.4

Source: Company; Mirae Asset Sharekhan Research

About company

LTFH is one of the leading non-banking financial companies (NBFCs) in India. LTFH has strategically re-aligned its business mix towards retail. The company lends across 2W finance, tractor finance, microfinance, home loans/LAP, farm equipment, consumer loans, SME loans etc. The company is rated AAA by CARE, ICRA, CRISIL, and India Ratings.

Investment theme

LTFH has strategically re-aligned its business mix towards retail. Benefitting from a strong parentage, the company has access to funds at competitive rates. Accelerating retail growth will support earnings going forward.

Key Risks

Higher than expected stress in the portfolio in the MFI space and in the state of Tamil Nadu, continued slow growth due to calibration of portfolio, lower margins.

Additional Data

Key management personnel

Name	Designation
Sudipta Roy	Chief Executive Officer
Sachinn Joshi	Chief Financial Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Larsen & Toubro Ltd	66.17
2	Citigroup Global Markets Mauritius	3.83
3	Mirae Asset Financial Group	3.34
4	Life Insurance Corp of India	2.27
5	Invesco Asset Management India Pvt	1.61
6	L&T Employees Trust	1.61
7	Tata AIA Life Insurance Co Ltd	1.54
8	ICICI Prudential Life Insurance Co	1.43
9	Vanguard Group Inc/The	1.35
10	DSP Investment Managers Pvt Ltd	0.76

Source: Bloomberg

Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation, and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to change without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, and outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply to information/documents focused on technical and derivatives research and shall not apply to reports/documents/ information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. Mirae Asset Sharekhan will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable, and Mirae Asset Sharekhan has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on a reasonable basis, Mirae Asset Sharekhan, its subsidiaries and associated companies, their directors, and employees ("Mirae Asset Sharekhan and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent Mirae Asset Sharekhan and its affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance, and the value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Mirae Asset Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Mirae Asset Sharekhan and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restrictions.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in the securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of Mirae Asset Sharekhan. The analyst and Mirae Asset Sharekhan further certifies that either he or his relatives or Mirae Asset Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and Mirae Asset Sharekhan encourage independence in research report/ material preparation and strive to minimize conflict in the preparation of the research report. The analyst and Mirae Asset Sharekhan do not have any material conflict of interest or have not served as officers, directors or employees or engaged in market-making activity of the company. The analyst and Mirae Asset Sharekhan have not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd, or its associates, or analysts.

have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from a third party in the past twelve months in connection with the research report.

Either Mirae Asset Sharekhan or its affiliates or its directors or employees/representatives/clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. Mirae Asset Sharekhan may from time to time solicit from, or perform investment banking or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall Mirae Asset Sharekhan, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance, and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or results expressed or implied by such forward-looking statements. Sharekhan Ltd and its affiliates undertake no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change, except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgment before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Mirae Asset Sharekhan has been ranked as India's No.1 Retail Broker by Asiamoney Brokers Poll 2023. For more details, visit bit.ly/AsiamoneyPoll

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

---

Registered Office: 1st Floor, Tower No. 3, Equinox Business Park, LBS Marg, Off BKC, Kurla (West), Mumbai 400 070, Maharashtra, India. Tel: 022-67502000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited - (AMFI-registered Mutual Fund Distributor), Research Analyst Regn No.: INH000006183. CIN: U99999MH1995PLC087498.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-4657 3809; email id: complianceofficer@sharekhan.com

For any complaints/ grievances, email us at igc@sharekhan.com, or you may even call the Customer Service desk on 022-41523200/ 022-61151111.