

**L&T Finance Q2 Review - Strong PAT Beat; Healthy Retail Loan Growth, Stable Asset Quality:
Motilal Oswal**

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Motilal Oswal Report

L&T Finance Holdings Ltd. reported a profit after tax of ~Rs 4.1 billion in Q2 FY23 (up 82% YoY, 24% beat). Healthy net interest margin (and fee income) and lower credit costs (driven by utilisation of Rs 4.2 billion of management overlay to create 100% provisions on one time restructuring slippages) led to the strong earnings.

While L&T Finance has demonstrated an improvement in NIM, we model in a margin compression in FY24 to factor in a gradual rise in borrowing costs and the competitive landscape.

A better execution of the management's retail strategy and an improved product mix (retail loans improving to 58%) should aid an improvement in asset quality.

Given that a large part of the capital gains from the sale of the asset management company business will be utilised for macro-prudential provisions (and to improve provision coverage ratio on the wholesale real estate business), it will be in a better position to monetise and/or further sell-down this wholesale segment.

L&T Finance is at a cusp where it can turn over a new leaf from FY24.

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