



Case Study Of L&T Finance And Bajaj Finance- Comparative Analysis

¹Puneet Chawla,

¹Assistant Professor,

¹ Department of Commerce

¹IITM College, Affiliated to GGSIPU Delhi, India

Abstract:

This study provides a comparative analysis of the financial performance, market positioning, and growth potential of two prominent players in India's non-banking financial sector: L&T Finance Holdings (LTF) and Bajaj Finance. Focusing on key metrics such as revenue growth, profit margins, asset quality, and stock performance, the analysis aims to provide insights into their investment viability. By examining their business models, risk factors, and industry positioning, this research contributes to understanding the competitive dynamics within India's rapidly evolving financial services sector. This comparative study highlights areas where each company excels and explores potential risks and opportunities investors might consider in the current economic climate. Comparative analysis of L&T Finance Holdings (LTF) and Bajaj Finance stocks, key aspects of each company, including their business models, financial performance, stock performance, growth potential, and risk factors. Both companies operate in the non-banking financial services (NBFC) sector in India, but their strategic focus and market positions differ significantly.

Keywords:- Financial performance , Profitability, revenue growth, Net interest margin, Comparative analysis

Overview of L&T Finance and Bajaj Finance

- **L&T Finance Holdings (LTF):** L&T Finance Holdings, part of the Larsen & Toubro group, primarily provides financial services in retail, housing, and infrastructure finance. Its portfolio includes lending for two-wheelers, real estate, microloans, and project financing. LTF's strength lies in its infrastructure finance and diversified loan portfolio.
- **Bajaj Finance:** Bajaj Finance, part of the Bajaj Group, is a prominent player in consumer finance. It operates across various segments, including consumer loans, personal loans, SME loans, and rural lending. Bajaj Finance has grown rapidly due to its strong brand and focus on consumer durables, personal loans, and cross-selling across its customer base.

2. Literature Review:

The non-banking financial company (NBFC) sector in India plays a critical role in bridging credit gaps, especially in sectors underserved by traditional banking institutions. Previous studies underscore the importance of NBFCs in enhancing financial inclusion, particularly in rural and semi-urban areas. L&T Finance Holdings, backed by Larsen & Toubro, has diversified its services across rural finance, housing finance, and asset management, contributing to its steady presence in the sector. Bajaj Finance, a leading NBFC, has outperformed its peers in terms of customer reach, innovation in lending products, and digital infrastructure.. Recent studies also emphasize the role of digital transformation, customer-centric approaches, and risk management practices as key to growth in the NBFC sector. By analyzing these factors in the context of LTF and Bajaj Finance, this study adds to the existing literature on NBFC performance and investment analysis, particularly in emerging markets

3. Business Model Comparison

- **L&T Finance Holdings:**
 - Focuses on rural, housing, and infrastructure finance, diversifying its risk across sectors.
 - Has exposure to infrastructure lending, which is high-value but can carry a higher risk.
 - Operates a diversified portfolio with moderate exposure to consumer loans compared to Bajaj Finance.

- **Bajaj Finance:**
 - Primarily focuses on consumer and retail financing, with significant cross-selling opportunities.
 - Concentrated in consumer durables, personal loans, and digital finance, allowing for higher margins and faster loan turnaround.
 - Leverages technology and data analytics to drive customer acquisition and retention, leading to high customer satisfaction and repeat business.

4. Financial Performance Analysis

- **Revenue and Profitability:**
 - L&T Finance reported a robust growth trajectory, with a Profit After Tax (PAT) of ₹2,320 crore, up 43% year-over-year (YoY), driven by retail book expansion and increased disbursements. LTF has shown strong growth in its retail portfolio, achieving a 94% retailization goal in 2024, and aims to further enhance this to over 95% by 2026.
 - Bajaj Finance also demonstrated strong growth, maintaining high profit margins and efficiency, benefiting from its diversified lending portfolio across consumer, SME, and commercial lending. Bajaj Finance's RoE was around 20%, which is significantly higher than L&T Finance's recent 10.35% for the same period, indicating stronger profitability and efficiency in generating returns for shareholders.

- **Net Interest Margin (NIM):**
 - L&T Finance reported a NIM plus fee income of 10.67%, a 200 bps increase YoY, largely due to the growth in its retail-focused lending and digital channels like the PLANET app, which has gained substantial traction for loan disbursement and collection.
 - Bajaj Finance, known for its high-yielding consumer and SME loan portfolios, maintains a strong NIM. However, its diverse product offering and efficient cost of funds have historically supported its ability to keep NIMs above industry averages. Bajaj Finance typically reports a higher NIM compared to L&T Finance due to its focus on high-yielding consumer loans.

- **Asset Quality (NPA Levels):**
 - **Bajaj Finance:** The company maintained best-in-class asset quality, with gross NPAs at 0.85% and net NPAs at 0.37%, reflecting their effective risk management. They also enhanced provisioning to hedge against potential macroeconomic uncertainties. Bajaj Finance has a strong track record of asset quality management, with lower Non-Performing Assets (NPAs) compared to L&T Finance, largely due to its consumer-focused portfolio.
 - **L&T Finance:** L&T Finance reported improving asset quality with NPAs declining, a result of their increased focus on retail assets and effective restructuring of stressed assets. Their gross NPA ratio stood around 2%, lower than in previous years, aligning with their goal of strengthening the balance sheet. L&T Finance has higher NPA levels, partly due to the inherent risks in infrastructure financing and rural lending
- **Return on Equity (ROE) and Return on Assets (ROA):**

L&T Finance's RoA for FY24 stood at 2.32%, with a YoY increase in retail disbursements by 29%, signaling effective asset management strategies. However, its RoE of 10.35% remains moderate when compared to Bajaj Finance's high double-digit RoE. Bajaj Finance, with a higher RoE and diversified revenue streams, is often seen as more favorable by investors seeking growth in the financial services sector due to its superior RoA and efficient asset deployment. Bajaj Finance generally outperforms L&T Finance in terms of ROE and ROA, benefiting from higher-margin products and efficient capital utilization. L&T Finance has lower ROE and ROA compared to Bajaj Finance, reflecting its lower profitability and higher capital intensity in infrastructure finance.

5. Operational Efficiency

- **Bajaj Finance:** In FY24, Bajaj Finance achieved an impressive operational efficiency with an improved cost-to-income ratio of 34%, driven by scaling digital platforms and broadening geographic reach. They added over 412 new locations and expanded the customer base by 14.5 million, highlighting their growing footprint and strategic expansion
- **L&T Finance:** L&T Finance, in its transformation to a retail-focused NBFC, optimized operations with a 26% growth in retail AUM. Their initiatives to reduce corporate exposure and streamline operational costs are aimed at achieving a long-term cost-to-income improvement

6. Stock Performance Comparison

- **Historical Stock Performance:**
 - Bajaj Finance's stock has shown strong historical returns, outperforming L&T Finance and the broader NBFC sector due to its robust growth and high profitability.
 - L&T Finance's stock has been more volatile and has underperformed Bajaj Finance, reflecting challenges in scaling its diverse portfolio as efficiently.
- **Volatility:**
 - Bajaj Finance's stock is relatively more stable with steady growth due to a strong market position in consumer finance.
 - L&T Finance's stock exhibits higher volatility, impacted by infrastructure sector fluctuations and periodic asset quality issues.

7. Operational Efficiency and Technological Investments

Operational Metric	Bajaj Finance (FY24)	L&T Finance (FY24)
Cost of Borrowing	~6.5%	~8%
Cost-to-Income Ratio	34%	45%
Digital Transactions Share	70%	50%
Investment in Tech (₹ Cr)	700	300

Table 1. Operational Efficiency and Technological Investments

- Interpretation: Bajaj Finance's lower cost-to-income ratio and higher digital transaction share highlight its efficiency. Both companies are investing significantly in digital transformation, with L&T Finance's PLANET app showing rapid adoption.

8. Growth Potential and Future Outlook

- Bajaj Finance:
 - Expected to continue its growth trajectory with an expanding digital finance ecosystem and cross-selling among its extensive customer base.
 - Expansion into rural and digital lending platforms offers opportunities to tap into underserved markets.
 - Risks include market saturation in urban consumer finance, regulatory changes, and rising competition from digital fintech players.
- L&T Finance:
 - Has growth potential in rural finance and infrastructure lending, supported by government infrastructure initiatives.
 - A focus on asset-light models and potential divestment of non-core assets may improve profitability and ROE.
 - Risks include high exposure to infrastructure, rural market volatility, and asset quality challenges.

9. Risk Factors

- Bajaj Finance:
 - Highly dependent on consumer spending and economic conditions.
 - Faces increasing competition from digital lenders and fintech disruptors.
 - Sensitive to regulatory changes that could impact lending practices or interest rate policies.
- L&T Finance:
 - Significant exposure to sectors with higher credit risk, such as infrastructure.
 - Vulnerable to economic cycles and delays in government projects.
 - Asset quality can be impacted by economic downturns and fluctuations in the rural economy.

10. Conclusion

In a comparative analysis, Bajaj Finance emerges as a leader in consumer finance with strong growth, high profitability, and relatively low NPA levels, making it a favorite for investors seeking stable growth in the NBFC sector. L&T Finance, however, provides diversified exposure across infrastructure and rural finance, with potential for long-term growth driven by India's infrastructure development. Investors looking for growth may favor Bajaj Finance due to its focus on high-yield consumer loans, while L&T Finance may appeal to those looking for diversification and exposure to rural and infrastructure finance. Both Bajaj Finance and L&T Finance are positioned for growth, albeit with different strategies: Bajaj Finance focuses on comprehensive diversification and market expansion, whereas L&T Finance is pivoting strategically towards retail finance. The

comparative analysis reveals Bajaj Finance as a higher growth, tech-focused company with a stronger market presence in retail finance. In summary, Bajaj Finance's higher profitability, efficiency, and lower NPA levels make it attractive for growth-focused investors, while L&T Finance's transformation towards retail lending under the Lakshya 2026 plan shows potential for long-term growth.

1. Bajaj Finance Ltd. Annual Report 2023
2. L&T Finance Holdings Ltd. Annual Report 2023
3. "NBFC Sector Analysis and Outlook," India Ratings and Research, 2023.
4. "Consumer Lending in India: A Market Overview," McKinsey & Company, 2023.
5. "The Future of Infrastructure Financing in India," CRISIL, 2022.
6. www.bajajfinserv.in
7. <https://www.screener.in/company/LTF/consolidated/>
8. <https://www.tickertape.in/stocks/landt-finance-holdings-LTFH>
9. <https://www.screener.in/company/LTF/consolidated/>
10. www.moneycontrol.com
11. www.bse.com
12. www.nse.com
13. Bajaj Finserv <https://cms-assets.bajajfinserv.in/is/content/bajajfinance/bajaj-finance-investor-presentation-q4-fy24-finalpdf?scl=1&fmt=pdf>

