

L&T Finance

| | |
|------------------|---|
| Estimate changes | ↔ |
| TP change | ↑ |
| Rating change | ↔ |

| | |
|-----------------------|-------------|
| Bloomberg | LTF IN |
| Equity Shares (m) | 2503 |
| M.Cap.(INRb)/(USDb) | 720.8 / 7.7 |
| 52-Week Range (INR) | 329 / 156 |
| 1, 6, 12 Rel. Per (%) | 9/15/66 |
| 12M Avg Val (INR M) | 1891 |

Financials Snapshot (INR b)

| Y/E March | FY26 | FY27E | FY28E |
|--------------|------|-------|-------|
| Total Income | 99.0 | 122.1 | 146.0 |
| PPP | 67.4 | 83.9 | 100.6 |
| PAT | 29.8 | 39.0 | 49.1 |
| EPS (INR) | 11.9 | 15.6 | 19.6 |
| EPS Gr. (%) | 12.4 | 30.6 | 25.9 |
| BV/Sh. (INR) | 112 | 125 | 140 |

Ratios

| | | | |
|---------------|------|------|------|
| NIM (%) | 9.4 | 9.4 | 9.4 |
| C/I ratio (%) | 39.8 | 38.9 | 38.6 |
| RoAA (%) | 2.3 | 2.5 | 2.6 |
| RoE (%) | 11.1 | 13.2 | 14.8 |
| Payout (%) | 23.1 | 25.0 | 25.0 |

Valuation

| | | | |
|----------------|------|------|------|
| P/E (x) | 24.2 | 18.5 | 14.7 |
| P/BV (x) | 2.6 | 2.3 | 2.1 |
| Div. Yield (%) | 1.0 | 1.4 | 1.7 |

Shareholding pattern (%)

| As of | Mar-26 | Dec-25 | Mar-25 |
|----------|--------|--------|--------|
| Promoter | 66.0 | 66.0 | 66.2 |
| DII | 14.9 | 15.3 | 13.3 |
| FII | 7.6 | 6.7 | 5.5 |
| Others | 11.5 | 12.0 | 15.0 |

FII includes depository receipts

CMP: INR288 **TP: INR350 (+22%)** **Buy**
Healthy quarter fueled by strong growth and declining credit costs

ECL model refresh leads to lower PCR on S3; Lakshya 2031 targets announced

- L&T Finance (LTF)'s reported 4QFY26 PAT grew 27% YoY to INR8.1b (in line), and FY26 PAT grew 13% YoY to INR29.8b. NII in 4QFY26 grew ~25% YoY to INR26.8b (in line).
- Opex grew ~20% YoY to ~INR12b (in line). The cost-to-income ratio rose ~30bp QoQ to ~39.7% (PQ: ~39.4%). PPOP in 4QFY26 grew ~28% YoY to ~INR18.2b (in line), and FY26 PPOP grew 13% YoY to INR67.4b. Credit costs stood at INR7.5b (in line). Reported credit costs dipped to 2.64% (PQ: 2.83%), a reduction of ~20bp QoQ. Slippage continued to decline with slippages of INR4b in 4QFY26 (PQ: INR6b).
- In line with its annual ECL model refresh, LTF recalibrated PD and LGD assumptions and updated forward-looking risk parameters. This resulted in an ~INR3b release of provisions (INR2.9b from S3 and INR110m from S2), which was redeployed into Stage 1, enhancing coverage on S1 to ~80bp (PQ: ~60bp). The S3 PCR declined to 68% (PQ: 73%) but is adequate as per the company management and the ECL model. The overall adjustment was P&L neutral, and the balance sheet was further strengthened.
- Management expects FY27 to mark the start of consistent, high-quality growth, driven by strong demand across rural, urban, and gold loan segments, with a continued focus on quality-led expansion. Despite external shocks such as the West Asia crisis and potential El Niño impact, LTF remains confident of sustaining healthy, risk-calibrated growth and profitability.
- The company outlined its Lakshya 2031 goals, targeting 20%+ AUM growth, credit costs below 2%, RoA of 3.0-3.2%, and RoE of 16-18%, with a strong emphasis on tech-led execution, granular expansion, and strengthening both core and emerging businesses.
- We estimate a CAGR of ~21% in the loan book and ~28% in PAT over FY26-FY28E, with consolidated RoA/RoE of 2.6%/~15% in FY28E. We expect LTF to deliver a structural improvement in profitability and RoA from FY27 onward. **Reiterate BUY with a TP of INR350 (based on 2.5x Mar'28E BVPS).**

NIM improves ~20bp QoQ; CoB (reported) declines ~8bp QoQ

- Reported NIM improved ~20bp QoQ to 8.8%. However, NIM + fees rose ~6bp QoQ to ~10.5%. Spreads (calc.) declined ~10bp QoQ to ~8.4%. Yields (calc.) declined ~30bp QoQ to ~15%, while CoF (calc.) declined ~20bp QoQ to 6.6%. Reported CoB declined ~8bp QoQ to 7.17% in 4QFY26.
- Management shared that disbursement yields continue to remain higher than portfolio yields, primarily driven by a favorable product mix, and it expects NIM + fees income to remain stable in the ~10.0-10.5% range. We expect LTF to deliver a stable NIM (calc.) of ~9.4% each in FY27/FY28E.

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Asset quality improves significantly; retail GS3 declines to ~2.5%

- Consol. GS3 declined ~30bp QoQ to ~2.9% while NS3 rose ~5bp QoQ to ~0.96%. PCR declined ~460bp QoQ to ~67.3%. Retail GS3 declined ~30bp QoQ to 2.53%.
- Management indicated that asset quality remains stable across segments, with no visible stress in rural, SME, or 2W portfolios, while maintaining a cautious stance in urban SME and personal loans amid ongoing West Asia uncertainties. We expect credit costs for LTF to decline gradually from ~2.6% in FY26 to ~2.3% in FY28E.

Retail loans grow 26% YoY; strong momentum across all product segments

- Disbursements grew 62% YoY to INR241b in 4QFY26. Growth in secured disbursements was led by 2W Finance, which stood at INR29.3b and grew 58% YoY. Gold Finance disbursements stood at INR27.8b in 4Q. Personal loan disbursements stood at INR37.9b with increased focus on big tech partnerships. Rural business finance disbursements rose 41% YoY and 7% QoQ to INR72.1b.
- The total loan book grew ~24.5% YoY and ~6% QoQ to ~INR1.22t. Wholesale loans declined to ~INR22b (PY: INR25.8b). Retail assets contributed ~98% to the loan mix. Retail loans grew ~26% YoY, led by healthy growth in MFI, 2W, SME, LAP, and personal loans. Personal loans exhibited robust growth of ~14% QoQ and 70% YoY. Rural Business Loans (MFI) grew ~6% QoQ, LAP grew ~9% QoQ, and SME grew at 7% QoQ.

MFI collection efficiency improves during the quarter

- MFI collection efficiency (0-90dpd) was ~99.2% in Mar'26 (98.7% in Dec'25).
- Only ~1.6% (PQ: ~2.4%) of LTF customers have loans from 4 or more lenders (including LTF). There were improvements across PAR1-30, PAR31-60, and PAR61-90 cohorts.

Highlights from management commentary

- Management shared that improvement in credit costs will be driven by sharper customer selection through the Cyclops underwriting engine, initially deployed in higher-risk segments such as 2W, tractors, and SME, with early trends encouraging and reflecting a strong shift toward prime customers alongside healthy origination growth.
- The company is undertaking aggressive distribution expansion, with plans to add 400-500 gold loan branches (including ~100 Sampoorana branches), along with 150-200 each of micro-loan and micro-LAP branches, significantly expanding its physical distribution footprint.

Valuation and view

- LTF's 4QFY26 earnings were in line, with strong disbursement leading to healthy retail loan growth. Asset quality improved significantly during the quarter, resulting in sequentially lower credit costs. It also benefited from lower borrowing costs, aided by better treasury management and policy rate cuts, which contributed to a healthy expansion in NIM. The company also announced its Lakshya 2031 goals, which suggest potential for significant improvements in credit costs and return metrics over the coming years.
- LTF currently trades at 2.3x FY27E P/B. We estimate a CAGR of ~21% in the loan book and ~28% in PAT over FY26-28E, with consolidated RoA/RoE of 2.6%/15% in FY28E. We expect LTF to deliver a structural improvement in profitability and RoA from FY27 onward. **Reiterate BUY with a TP of INR350 (based on 2.5x Mar'28E BVPS).**

Quarterly performance

(INR m)

| Y/E March | FY25 | | | | FY26E | | | | FY25 | FY26 | 4Q FY26E | v/s Est. |
|--------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-----------------|---------------|-------------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | | |
| Interest Income | 34,526 | 36,544 | 38,064 | 37,499 | 39,145 | 40,374 | 42,401 | 44,240 | 1,46,633 | 1,66,160 | 44,712 | -1 |
| Interest Expenses | 13,514 | 14,763 | 15,692 | 15,998 | 16,357 | 16,343 | 17,030 | 17,470 | 59,968 | 67,201 | 18,043 | -3 |
| Net Interest Income | 21,012 | 21,781 | 22,371 | 21,501 | 22,788 | 24,031 | 25,371 | 26,770 | 86,665 | 98,959 | 26,670 | 0 |
| Change YoY (%) | 19.9 | 18.1 | 14.6 | 8.2 | 8.4 | 10.3 | 13.4 | 24.5 | 15.0 | 14.2 | 24.0 | |
| Other Operating Income | 3,318 | 3,649 | 2,912 | 2,730 | 3,451 | 2,983 | 3,382 | 3,470 | 12,610 | 12,977 | 3,684 | -6 |
| Net Operating Income | 24,330 | 25,431 | 25,283 | 24,231 | 26,238 | 27,015 | 28,753 | 30,240 | 99,275 | 1,11,936 | 30,353 | 0 |
| Change YoY (%) | 30.8 | 34.6 | 16.0 | 3.7 | 7.8 | 6.2 | 13.7 | 24.8 | 21.0 | 12.8 | 25.3 | |
| Other income | 2 | 47 | 76 | 43 | 0 | 0 | 32 | 1 | 167 | 34 | 51 | -99 |
| Total Income | 24,332 | 25,477 | 25,359 | 24,274 | 26,239 | 27,015 | 28,785 | 30,241 | 99,442 | 1,11,970 | 30,404 | -1 |
| Change YoY (%) | 20.9 | 18.1 | 13.8 | 3.6 | 7.8 | 6.0 | 13.5 | 24.6 | 14.6 | 12.6 | 25.3 | |
| Operating Expenses | 9,656 | 9,578 | 10,578 | 10,034 | 10,486 | 10,680 | 11,350 | 12,013 | 39,846 | 44,529 | 12,396 | -3 |
| Change YoY (%) | 24.1 | 11.4 | 18.9 | 2.4 | 8.6 | 11.5 | 7.3 | 19.7 | 13.6 | 11.8 | 23.5 | |
| Operating Profits | 14,676 | 15,899 | 14,781 | 14,240 | 15,753 | 16,335 | 17,435 | 18,228 | 59,597 | 67,440 | 18,009 | 1 |
| Change YoY (%) | 18.9 | 22.5 | 10.5 | 4.6 | 7.3 | 2.7 | 18.0 | 28.0 | 15.3 | 13.2 | 26.5 | |
| Provisions | 5,453 | 6,504 | 6,542 | 6,185 | 6,320 | 6,446 | 7,513 | 7,489 | 24,684 | 27,459 | 7,685 | -3 |
| Profit before Tax | 9,223 | 9,396 | 8,239 | 8,055 | 9,432 | 9,889 | 9,922 | 10,739 | 34,913 | 39,982 | 10,324 | 4 |
| Tax Provisions | 2,370 | 2,429 | 1,983 | 1,697 | 2,424 | 2,540 | 2,542 | 2,648 | 8,478 | 10,153 | 2,380 | 11 |
| Profit after tax | 6,855 | 6,967 | 6,257 | 6,358 | 7,008 | 7,349 | 7,380 | 8,092 | 26,434 | 29,829 | 7,944 | 2 |
| Change YoY (%) | 29 | 17 | -2 | 15 | 2 | 5 | 18 | 27 | 14 | 13 | 25 | |
| Key Operating Parameters (%) | | | | | | | | | | | | |
| Rep. Net Income (% of Avg Assets) | 11.08 | 10.86 | 10.33 | 10.15 | 10.22 | 10.22 | 10.41 | 10.47 | | | | |
| Rep. Cost of funds (%) | 7.85 | 7.80 | 7.83 | 7.84 | 7.68 | 7.32 | 7.25 | 7.17 | | | | |
| Cost to Income Ratio | 39.7 | 37.6 | 41.7 | 41.3 | 40.0 | 39.5 | 39.4 | 39.7 | | | | |
| Rep Credit Cost | 2.37 | 2.59 | 2.49 | 2.54 | 2.23 | 2.41 | 2.83 | 2.64 | | | | |
| Tax Rate | 25.7 | 25.9 | 24.1 | 21.1 | 25.7 | 25.7 | 25.6 | 24.7 | | | | |
| Balance Sheet Parameters | | | | | | | | | | | | |
| Gross Customer Assets (INR B) | 887 | 930 | 951 | 978 | 1,023 | 1,071 | 1,143 | 1,217 | | | | |
| Change YoY (%) | 12.9 | 18.1 | 16.3 | 14.3 | 15.3 | 15.1 | 20.1 | 24.5 | | | | |
| Borrowings (INR B) | 803 | 849 | 862 | 922 | 938 | 977 | 1,026 | 1,099 | | | | |
| Change YoY (%) | 6.5 | 10.9 | 13.4 | 20.5 | 16.8 | 15.1 | 19.0 | 19.1 | | | | |
| Customer Assets /Borrowings (%) | 110 | 110 | 110 | 106 | 109 | 110 | 111 | 111 | | | | |
| Asset Quality Parameters (%) | | | | | | | | | | | | |
| GS 3 (INR B) | 27.9 | 29.6 | 30.8 | 32.2 | 33.9 | 35.2 | 36.5 | 35.1 | | | | |
| Gross Stage 3 (%) | 3.14 | 3.19 | 3.23 | 3.29 | 3.30 | 3.29 | 3.19 | 2.88 | | | | |
| NS 3 (INR B) | 6.9 | 8.7 | 9.1 | 9.3 | 9.9 | 10.5 | 10.2 | 11.5 | | | | |
| Net Stage 3 (%) | 0.79 | 0.96 | 0.97 | 0.97 | 0.96 | 0.98 | 0.92 | 0.96 | | | | |
| PCR (%) | 75.3 | 70.6 | 70.6 | 71.1 | 70.8 | 70.3 | 71.9 | 67.3 | | | | |
| Return Ratios (%) | | | | | | | | | | | | |
| ROAA | 2.7 | 2.6 | 2.3 | 2.2 | 2.4 | 2.4 | 2.4 | 2.4 | | | | |
| ROAE | 11.6 | 11.7 | 10.2 | 10.1 | 10.9 | 11.3 | 11.1 | 11.7 | | | | |

E: MOFSL Estimates



Highlights from the management commentary

Guidance for FY27

- Management expects FY27 to mark the beginning of consistent, high-quality growth, as investments made over the past 12–18 months start delivering operating leverage benefits.
- AUM growth is guided at 20%+, supported by strong demand across rural, urban, and gold loan segments, with a continued focus on quality-led expansion.
- Margins are expected to remain stable, with NIM plus fee income guided at 10-10.5%, reflecting a balanced approach to growth and profitability.
- Credit costs are expected to decline gradually to ~2.0-2.2% by 4QFY27, driven by portfolio seasoning and improved underwriting through AI-led tools.
- Operating efficiency is expected to improve, with opex-to-AUM guided at 3.75-4%, and overall opex plus credit cost expected in the range of 6-6.5% (long-term target of 5.5-6%).
- The company is targeting ROA improvement to ~2.8% by the end of FY27, driven by lower credit costs and operating leverage.
- The company has begun FY27 with strong disbursement momentum and expects growth to remain robust. Despite external risks like West Asia tensions and potential El Niño impact on monsoons, it remains confident of sustaining risk-calibrated growth and profitability going forward.
- The company is undertaking aggressive distribution expansion, with plans to add 400-500 gold loan branches (including ~100 Sampoorana branches), along with 150-200 micro loan and micro-LAP branches each, significantly expanding its physical footprint.
- It is also expanding its presence in two-wheelers and farm equipment by increasing coverage of previously untapped dealer networks, which should support growth in these segments.

Strategic progress (Lakshya 2026) & long-term roadmap (Lakshya 2031)

- Under the Lakshya 2026 plan, the company has largely exceeded its growth targets, achieving a retail book CAGR of 28% versus the targeted 25%, reflecting strong execution and demand conditions.
- Asset quality targets were met, with GS3 at 2.88% and NS3 at 0.96%, both within guided thresholds, indicating disciplined risk management.
- Retailization levels exceeded at 98% (vs >95% target), showing efficient capital deployment.
- However, ROA at ~2.4% remained below the targeted 2.8-3%, primarily due to the impact of the microfinance disruption, which delayed profitability normalization.
- Looking ahead to Lakshya 2031, the company is targeting 20%+ AUM growth, credit costs below 2%, ROA of 3-3.2%, and ROE of 16-18%, with a strong focus on tech-led execution, granular expansion, and strengthening both core and emerging business segments.

Opening remarks and Macro

- Domestic demand continues to remain resilient, with both rural and urban segments holding up well, providing a strong base for credit growth across businesses. Management highlighted that this demand strength is broad-based and not limited to any single segment, which gives confidence in sustainability.

- The government's continued push toward domestic manufacturing, along with structural factors like low inflation and fiscal discipline, is expected to support long-term economic growth and credit demand. These factors together provide a relatively stable macro backdrop compared to global volatility.
- That said, management remains cautious on external risks, particularly the ongoing West Asia geopolitical tensions, which could have second-order impacts such as elevated crude prices, supply disruptions (especially fertilizers ahead of the kharif season), and cost pressures for MSMEs.
- While no immediate stress is visible in the portfolio due to these factors, management is closely monitoring risks like energy shocks, agricultural input shortages, and their potential downstream impact on rural income and MSME cash flows.
- Overall, despite global uncertainties and potential El Niño risks, the company remains confident of maintaining steady growth momentum.

Financial performance

- The company delivered a strong FY26 performance, reporting its highest-ever annual profitability with PAT growing 13% YoY, while 4QFY26 PAT stood at INR8.1b, up 27% YoY, reflecting strong end-of-year momentum.
- Growth was primarily driven by record disbursements of INR242b during the quarter, with broad-based contribution across all lines of business, indicating healthy demand and execution across segments.
- Retail disbursements grew sharply by 62% YoY, leading to a 26% YoY growth in the retail loan book, which reached INR1.19t, reinforcing the company's continued shift toward granular retail lending.
- Profitability metrics improved meaningfully, with PPOP growing 31% YoY, supported by expansion in NIMs and fee income, driven by better yields, favorable product mix, and effective liability management initiatives.
- Consolidated NIM plus fee income remained strong at 10.47%, indicating stability in core earnings despite mix changes.
- Asset quality remained under control, with credit costs moderating to 2.64% (down 19 bps QoQ), reflecting improving portfolio trends.
- Return ratios improved, with ROA at 2.4% (+18 bps YoY) and ROE at 11.7%, though still below long-term targets, largely due to earlier MFI disruptions and legacy drag.
- The company continues to reduce its legacy wholesale and SR exposure, with the wholesale book declining 14% YoY to INR22b and the SR book declining 18% YoY to INR48b. These legacy assets (~INR70b combined) continue to drag profitability, particularly as SRs generate no income.
- Over the next 2-4 years, resolution of these assets is expected to release capital, improve asset mix, and support ROA expansion as funds are redeployed into higher-yielding retail assets.

Asset quality and credit costs

- There is no meaningful impact from ongoing West Asia tensions on domestic consumers so far, except for minor LPG-related issues. Some MSME segments have seen pressure due to tightening in industrial gas supplies.
- Asset quality remains stable across segments, with no visible signs of stress in rural, SME, or two-wheeler portfolios, though management remains cautious in urban segments such as SME and personal loans due to the West Asia crisis.

- The company is increasingly focusing on prime customer segments, which now form a larger share of originations, improving portfolio resilience.
- Credit costs are expected to improve structurally, driven by better underwriting through the Cyclops engine, with a medium-term target of ~2% or lower by FY28, subject to macro conditions.
- Key near-term risk is potential disruption in fertilizer supply due to dependence on Middle East corridors, which could impact kharif output and farm incomes (second/third-order effect)
- Elevated oil prices remain a monitorable risk given potential spill over into inflation and consumption.
- Overall stance remains vigilant, but no current evidence of deterioration in credit metrics due to geopolitical factors.
- Improvement in credit costs will be driven by sharper customer selection through the Cyclops underwriting engine, which has been initially deployed in higher-risk segments such as two-wheelers, tractors, and SME. Early trends in these portfolios are highly encouraging, with a strong shift toward prime customers (e.g., two-wheeler prime mix increasing from ~65% to ~90%) alongside healthy origination growth.
- This reinforces confidence in a structurally improving credit cost trajectory, although outcomes remain subject to external factors such as regulatory or macro disruptions. The company continues to guide for credit costs to decline to ~2% or lower by FY28, with the trajectory supported by the gradual seasoning of the Cyclops-driven portfolio.

Annual ECL refresh

- The company undertook a comprehensive ECL model recalibration in FY26, shifting to a more conservative provisioning approach by increasing Stage 1 PCR from ~0.52% to ~0.80%, which will now apply to all incremental disbursements.
- This resulted in an ~INR3b provision release (largely from Stage 3), which has been redeployed into Stage 1, along with INR1.25b of macro-prudential provisions being subsumed into the model. Consequently, Stage 1 PCR increased from ~0.52% to ~0.80% (covering ~96% of the book), while Stage 2 saw a marginal uptick, and Stage 3 PCR moderated to ~68%, still maintaining adequate coverage.
- Going forward, the company intends to continue building macro provisions as needed. Importantly, despite higher Stage 1 provisioning, the FY27 credit cost outlook remains unchanged, as improving asset quality and lower roll-forwards are expected to offset the impact.

Yields and margins

- Disbursement yields remain higher than portfolio yields due to a favorable product mix, and management is focusing on improving blended yields through mix shift rather than pricing.
- This includes increasing the share of higher-yielding products such as personal loans, gold loans, and micro-LAP, while reducing reliance on lower-yielding segments such as home loans (shift in mix from ~80:20 to ~55:45 toward LAP).
- Importantly, yield improvement is being achieved without moving down the credit curve, ensuring that growth remains risk-calibrated and sustainable.

Technology, AI-led underwriting & digital capabilities

- The company continues to make significant investments in technology and positions itself as a leader in AI adoption within the BFSI space, with proprietary tools embedded across the entire lending lifecycle.
- The Cyclops underwriting engine has delivered encouraging early results, particularly in higher-risk segments like two-wheelers, tractors, and SME lending, where portfolio performance has outperformed industry benchmarks and borrower quality has improved meaningfully (shift toward prime customers).
- Other initiatives include Helios co-pilot, which has already reduced underwriting turnaround time and is expected to improve further with additional modules in FY27, enhancing scalability and efficiency.
- Project Nostradamus, a real-time portfolio monitoring system, went live in Nov'25 and is expected to be expanded across MFI, SME, and farm segments in FY27, enabling better risk monitoring and decision-making.
- The company plans to start disclosing AI-related performance metrics on a half-yearly basis, reflecting confidence in these tools and their impact on business outcomes.

Productivity and focus areas

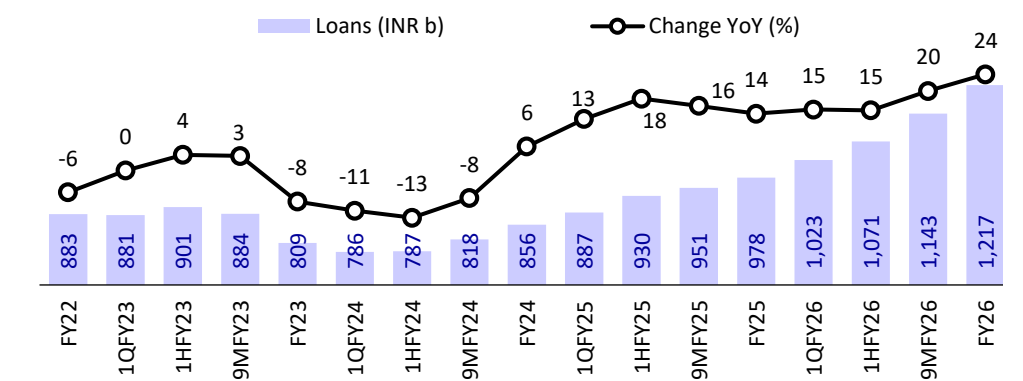
- Management focused on four key execution priorities during the year: reviving growth in the MFI segment, driving growth across all business lines, improving operating efficiency (particularly in collections and underwriting), and enhancing productivity across sales channels.
- The MFI business has shown a strong recovery after earlier disruptions, with disbursements picking up and collection efficiency fully restored to pre-crisis levels of 99.8%+, indicating normalization of borrower behavior and portfolio stability.
- A key highlight has been significant productivity improvement across segments, driven by digital tracking tools and tighter performance monitoring. These gains reflect both better manpower utilization and process efficiencies.
- Segment-wise productivity saw strong YoY improvements: MFI up 38%, personal loans up 60%, two-wheelers up 36%, SME up ~66%, farm up 11%, and housing up ~11%, indicating broad-based operational efficiency gains.
- Management emphasized that productivity is continuously benchmarked against peers and that further gains are expected through optimization of workforce deployment and increased cross-selling opportunities across products.

Others

- Customer acquisition remains strong, with a record addition of 83m customers in 4QFY26, taking the total customer base to ~28m, along with expansion into new geographies such as Maharashtra, Andhra Pradesh, and Assam.
- Fee income is expected to remain stable in the range of 1.7-1.9% of assets, supported by processing fees, PLI income, and other fee streams.
- Additionally, the company is launching a payments platform (expected by 2QFY27), which will leverage its AI capabilities to enhance customer engagement, diversify fee income, and generate transaction data to strengthen its lending ecosystem.

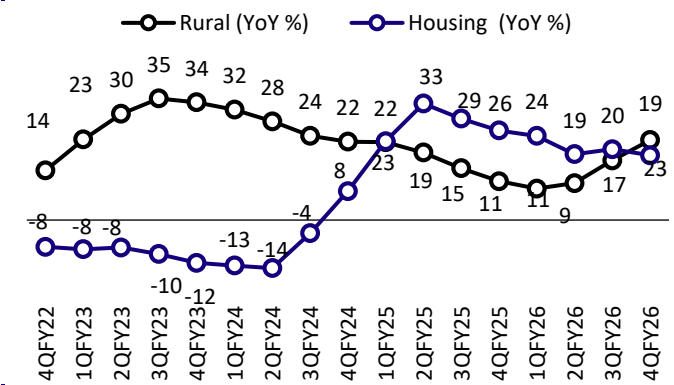
Key exhibits

Exhibit 1: Loan book grew 24% YoY/6.5% QoQ



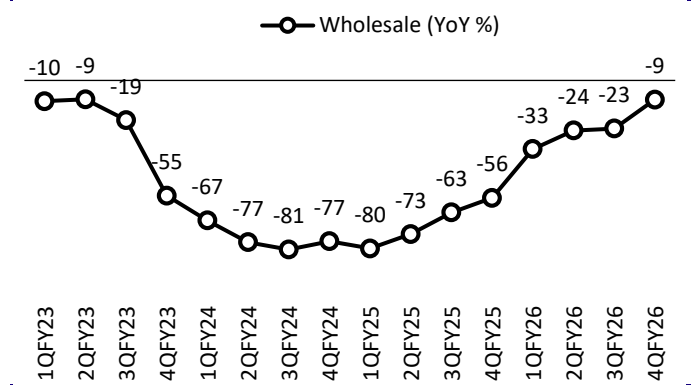
Source: MOFSL, Company

Exhibit 2: Housing finance book (including wholesale RE) grew ~19% YoY



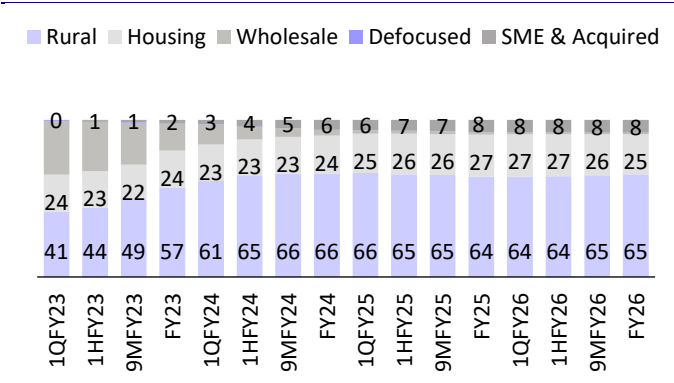
Source: MOFSL, Company

Exhibit 3: Wholesale book declined 9% YoY



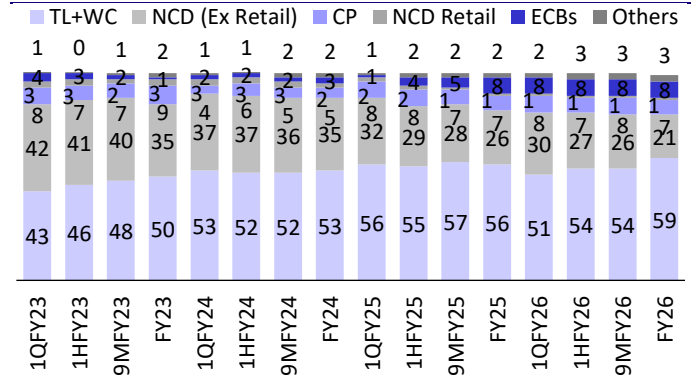
Source: MOFSL, Company

Exhibit 4: Rural finance in the loan mix remained stable QoQ



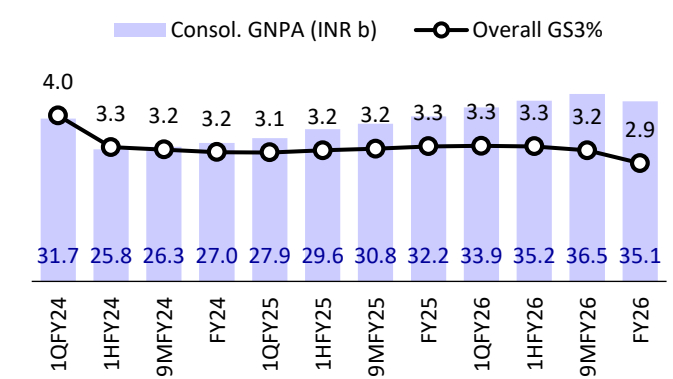
Source: MOFSL, Company

Exhibit 5: Borrowing mix (%)



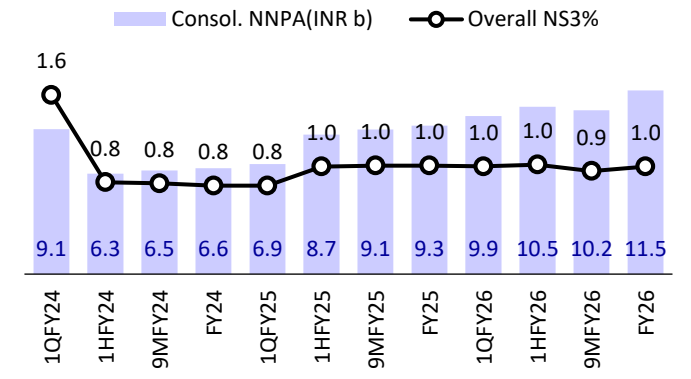
Source: MOFSL, Company

Exhibit 6: GS3 declined ~30bp QoQ (%)



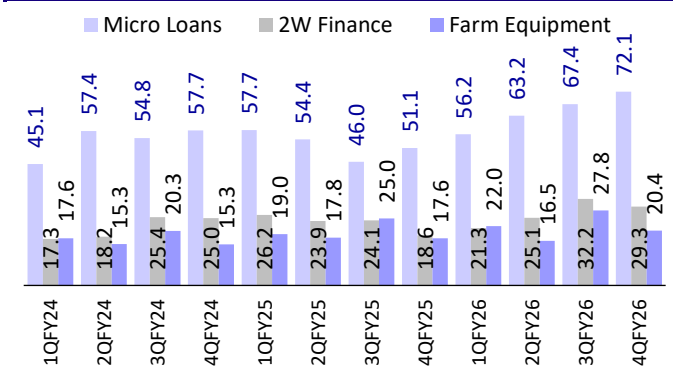
Source: MOFSL, Company

Exhibit 7: NS3 rose ~5bp QoQ (%)



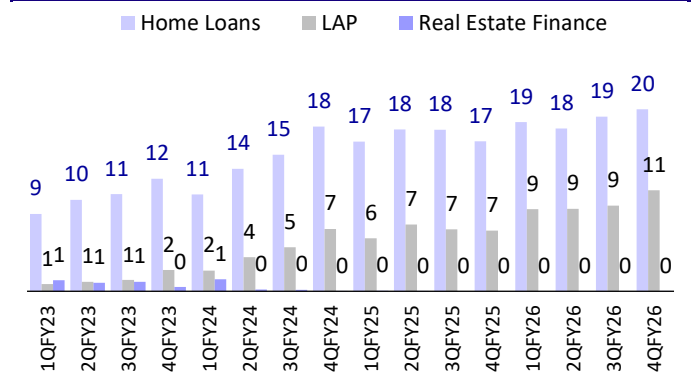
Source: MOFSL, Company

Exhibit 8: Micro loan disbursements improved QoQ (INR b)



Source: MOFSL, Company

Exhibit 9: Home loan disbursements improved QoQ (INR b)

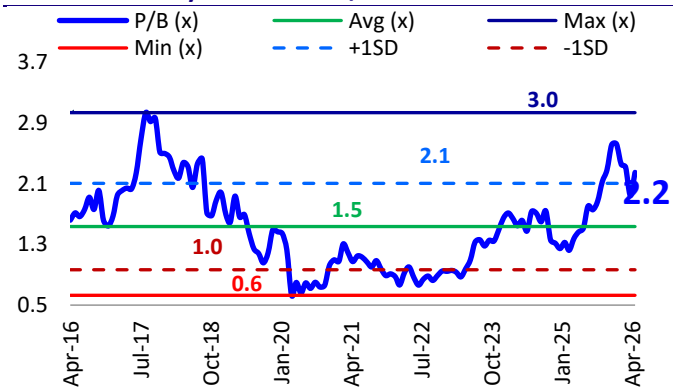


Source: MOFSL, Company

Exhibit 10: Our EPS estimates are broadly unchanged

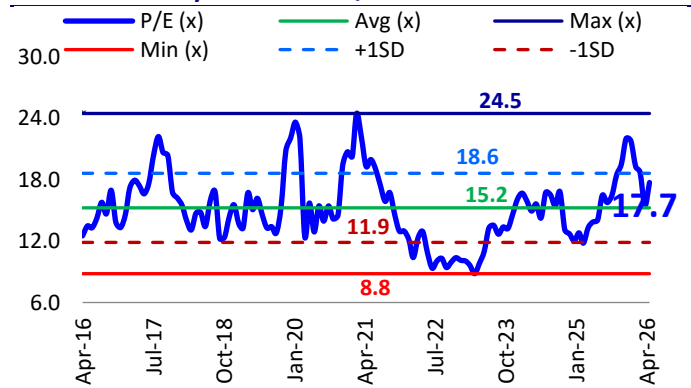
| INR b | Old estimates | | New estimates | | % Change | |
|--------------------------|---------------|--------------|---------------|--------------|------------|-------------|
| | FY27E | FY28E | FY27E | FY28E | FY27E | FY28E |
| Total Income | 136.8 | 165.3 | 137.3 | 163.8 | 0.4 | -1.0 |
| Operating Expenses | 53.3 | 62.9 | 53.4 | 63.2 | 0.2 | 0.5 |
| Operating Profits | 83.4 | 102.5 | 83.9 | 100.6 | 0.6 | -1.8 |
| Provisions | 32.3 | 37.7 | 32.4 | 35.8 | 0.5 | -5.2 |
| PBT | 51.2 | 64.7 | 51.5 | 64.8 | 0.6 | 0.1 |
| Tax | 12.4 | 15.7 | 12.5 | 15.7 | 0.6 | 0.1 |
| PAT | 38.7 | 49.0 | 39.0 | 49.1 | 0.6 | 0.1 |
| Loan book | 1,426 | 1,719 | 1,416 | 1,694 | -0.6 | -1.4 |
| Borrowings | 1,360 | 1,638 | 1,351 | 1,614 | -0.6 | -1.4 |

Exhibit 11: One-year forward P/B



Source: MOFSL, Company

Exhibit 12: One-year forward P/E



Source: MOFSL, Company

Financials and Valuation

| Income statement | | | | | | | | (INR m) |
|---|---------------|---------------|---------------|---------------|---------------|-----------------|-----------------|-----------------|
| Y/E March | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
| Interest Income | 1,31,049 | 1,17,042 | 1,25,651 | 1,29,139 | 1,46,633 | 1,66,160 | 2,03,943 | 2,44,632 |
| Interest Expended | 71,999 | 57,494 | 57,972 | 53,772 | 59,968 | 67,201 | 81,837 | 98,607 |
| Net Interest Income | 59,049 | 59,548 | 67,679 | 75,367 | 86,665 | 98,959 | 1,22,106 | 1,46,025 |
| Change (%) | 3.0 | 0.8 | 13.7 | 11.4 | 15.0 | 14.2 | 23.4 | 19.6 |
| Other Operating Income | 5,732 | 6,053 | 3,569 | 6,667 | 12,610 | 12,977 | 15,205 | 17,694 |
| Net Operating Income | 64,782 | 65,601 | 71,248 | 82,034 | 99,275 | 1,11,936 | 1,37,311 | 1,63,719 |
| Change (%) | -1.7 | 1.3 | 8.6 | 15.1 | 21.0 | 12.8 | 22.7 | 19.2 |
| Other Income | 6,276 | 3,928 | 5,268 | 4,745 | 167 | 34 | 37 | 41 |
| Net Income | 71,058 | 69,529 | 76,515 | 86,779 | 99,442 | 1,11,970 | 1,37,348 | 1,63,760 |
| Change (%) | 2.0 | -2.2 | 10.0 | 13.4 | 14.6 | 12.6 | 22.7 | 19.2 |
| Operating Expenses | 19,749 | 23,946 | 28,732 | 35,079 | 39,846 | 44,529 | 53,442 | 63,176 |
| Operating Profits | 51,309 | 45,582 | 47,783 | 51,701 | 59,597 | 67,440 | 83,906 | 1,00,583 |
| Change (%) | 2.9 | -11.2 | 4.8 | 8.2 | 15.3 | 13.2 | 24.4 | 19.9 |
| Provisions/write offs | 36,357 | 30,833 | 25,404 | 21,410 | 24,684 | 27,459 | 32,434 | 35,769 |
| PBT | 14,952 | 14,750 | 22,379 | 30,290 | 34,913 | 39,982 | 51,472 | 64,814 |
| Tax | 5,463 | 4,256 | 6,464 | 7,119 | 8,478 | 10,153 | 12,508 | 15,750 |
| Tax Rate (%) | 36.5 | 28.9 | 28.9 | 23.5 | 24.3 | 25.4 | 24.3 | 24.3 |
| PAT before pref dividend | 9,489 | 10,494 | 15,915 | 23,171 | 26,434 | 29,829 | 38,964 | 49,064 |
| Change (%) | -44.2 | 10.6 | 51.7 | 45.6 | 14.1 | 12.8 | 30.6 | 25.9 |
| Preference Dividend | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| PAT to equity shareholders (incl. extraordinary items) | 9,489 | 10,704 | 16,216 | 23,171 | 26,434 | 29,829 | 38,964 | 49,064 |
| Change (%) | -44 | 13 | 52 | 43 | 14 | 13 | 31 | 26 |
| Proposed Dividend | 0 | 1,237 | 4,959 | 6,222 | 6,861 | 6,887 | 9,741 | 12,266 |

| Balance sheet | | | | | | | | (INR m) |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Y/E March | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
| Equity Share Capital | 24,695 | 24,740 | 24,797 | 24,889 | 24,949 | 25,044 | 25,044 | 25,044 |
| Reserves & Surplus | 1,63,038 | 1,74,737 | 1,90,487 | 2,09,495 | 2,30,692 | 2,54,791 | 2,86,869 | 3,26,192 |
| Borrowings | 8,85,558 | 8,52,012 | 8,30,435 | 7,65,409 | 9,22,469 | 10,98,877 | 13,51,330 | 16,14,286 |
| Change (%) | -5.7 | -3.8 | -2.5 | -7.8 | 20.5 | 19.1 | 23.0 | 19.5 |
| Other liabilities | 16,427 | 17,533 | 17,903 | 27,383 | 25,984 | 43,341 | 45,483 | 47,732 |
| Total Liabilities | 10,89,717 | 10,69,022 | 10,63,621 | 10,27,176 | 12,04,094 | 14,22,053 | 17,08,725 | 20,13,254 |
| Loans | 8,70,303 | 8,24,694 | 7,51,546 | 8,13,594 | 9,37,731 | 11,78,210 | 14,16,488 | 16,93,900 |
| Change (%) | -4.8 | -5.2 | -8.9 | 8.3 | 15.3 | 25.6 | 20.2 | 19.6 |
| Investments | 88,721 | 1,19,169 | 1,43,662 | 1,23,849 | 1,18,760 | 1,05,638 | 1,10,920 | 1,16,466 |
| Change (%) | 48.4 | 34.3 | 20.6 | -13.8 | -4.1 | -11.0 | 5.0 | 5.0 |
| Net Fixed Assets | 11,621 | 5,306 | 5,573 | 5,550 | 6,860 | 13,695 | 14,380 | 15,099 |
| Other assets | 1,19,071 | 1,19,852 | 1,62,841 | 84,183 | 1,40,744 | 1,24,510 | 1,66,937 | 1,87,789 |
| Total Assets | 10,89,717 | 10,69,022 | 10,63,621 | 10,27,176 | 12,04,094 | 14,22,053 | 17,08,725 | 20,13,254 |

E: MOFSL Estimates

Financials and Valuation

| AUM Mix | | | | | | | | (%) |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|
| AUM Details | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
| Asset Under Management | 9,40,140 | 8,83,400 | 8,08,930 | 8,55,640 | 9,77,620 | 12,16,760 | 14,91,040 | 17,83,052 |
| Change (%) | -4.4 | -6.0 | -8.4 | 5.8 | 14.3 | 24.5 | 22.5 | 19.6 |
| Rural | 32.0 | 39.0 | 58.5 | 70.3 | 70.6 | 72.5 | 74.0 | 73.9 |
| Housing | 25.2 | 24.8 | 23.7 | 24.3 | 26.7 | 25.4 | 24.7 | 25.4 |
| Focused - Wholesale | 39.9 | 34.5 | 17.0 | 3.7 | 1.4 | 1.0 | 0.5 | 0.0 |
| Defocused - Wholesale | 2.9 | 1.7 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

| Ratios | | | | | | | | (%) |
|---|--------|--------|--------|--------|--------|--------|--------|--------|
| Y/E March | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
| Spreads Analysis (%) | | | | | | | | |
| Avg. Yield on Loans | 14.7 | 13.8 | 15.9 | 16.5 | 16.7 | 15.7 | 15.7 | 15.7 |
| Avg. Cost-Int. Bear. Liab. | 7.9 | 6.6 | 6.9 | 6.7 | 7.1 | 6.6 | 6.7 | 6.7 |
| Loan Spreads | 6.8 | 7.2 | 9.1 | 9.8 | 9.6 | 9.1 | 9.0 | 9.1 |
| NIM on loans | 6.6 | 7.0 | 8.6 | 9.6 | 9.9 | 9.4 | 9.4 | 9.4 |
| Profitability Ratios (%) | | | | | | | | |
| Int. Expended/Int. Earned | 54.9 | 49.1 | 46.1 | 41.6 | 40.9 | 40.4 | 40.1 | 40.3 |
| Other Inc./Net Income | 16.9 | 14.4 | 11.5 | 13.2 | 12.8 | 11.6 | 11.1 | 10.8 |
| Op. Exps./Net Income | 27.8 | 34.4 | 37.6 | 40.4 | 40.1 | 39.8 | 38.9 | 38.6 |
| Empl. Cost/Op. Exps. | 51.0 | 47.5 | 49.1 | 51.5 | 55.6 | 55.8 | 57.2 | 58.5 |
| Provisions/PPoP (%) | 70.9 | 67.6 | 53.2 | 41.4 | 41.4 | 40.7 | 38.7 | 35.6 |
| Asset Quality (%) | | | | | | | | |
| Gross NPAs | 45,040 | 35,430 | 38,320 | 26,980 | 32,180 | 35,110 | 42,065 | 48,140 |
| Gross NPAs to Adv. | 5.0 | 4.2 | 4.7 | 3.2 | 3.3 | 2.9 | 2.9 | 2.8 |
| Net NPAs | 13,770 | 16,780 | 11,780 | 6,610 | 9,290 | 11,480 | 9,995 | 11,534 |
| Net NPAs to Adv. | 1.6 | 2.0 | 1.5 | 0.8 | 1.0 | 1.0 | 0.7 | 0.7 |
| PCR (%) | 69.4 | 52.6 | 69.3 | 75.5 | 71.1 | 67.3 | 76.2 | 76.0 |
| ECL/EAD (%) | | | | | | | | |
| Return ratios and Capitalisation (%) | | | | | | | | |
| RoE | 5.7 | 5.5 | 7.8 | 10.3 | 10.8 | 11.1 | 13.2 | 14.8 |
| RoA | 0.9 | 1.0 | 1.5 | 2.2 | 2.4 | 2.3 | 2.5 | 2.6 |
| Debt to Equity (x) | 4.7 | 4.3 | 3.9 | 3.3 | 3.6 | 3.9 | 4.3 | 4.6 |
| Average Assets/Equity (x) | 6.5 | 5.6 | 5.1 | 4.6 | 4.6 | 4.9 | 5.3 | 5.6 |

| VALUATION | FY21 | FY22 | FY23 | FY24 | FY25 | FY26 | FY27E | FY28E |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Book Value (INR) | 76.0 | 80.6 | 86.8 | 94.2 | 102.5 | 111.7 | 124.5 | 140.2 |
| Price-BV (x) | 3.8 | 3.6 | 3.3 | 3.1 | 2.8 | 2.6 | 2.3 | 2.1 |
| EPS (INR) | 3.8 | 4.3 | 6.5 | 9.3 | 10.6 | 11.9 | 15.6 | 19.6 |
| EPS Growth YoY | -54.7 | 12.6 | 51.2 | 42.4 | 13.8 | 12.4 | 30.6 | 25.9 |
| Price-Earnings (x) | 75.2 | 66.8 | 44.2 | 31.0 | 27.3 | 24.3 | 18.6 | 14.8 |
| Dividend per share (INR) | 0.0 | 0.5 | 2.0 | 2.5 | 2.8 | 2.8 | 3.9 | 4.9 |
| Dividend yield (%) | 0.0 | 0.2 | 0.7 | 0.9 | 1.0 | 1.0 | 1.3 | 1.7 |

E: MOFSL Estimates

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|----------------------------------|--|
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| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 - 71934200 / 71934263; www.motilaloswal.com.

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Grievance Redressal Cell:

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Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412, BSE enlistment no. 5028, AMFI registered Mutual Fund Distributor and SIF Distributor: ARN : 146822. IRDA Corporate Agent – CA0579, APMI: APRN00233. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.