

L&T Finance | ADD

Inline quarter; limited upside on back of recent rally

L&T Finance (LTF) reported largely inline PAT with +6%/+5% YoY/QoQ growth, (-2% JMFe), leading to reported RoA of ~2.4% (+4bps QoQ). NII grew ~8% YoY/QoQ (+3% JMFe) as reported NIM was up ~18bps QoQ. PPoP grew 22%/5% YoY/QoQ while credit costs inched up (+20bps QoQ) despite utilizing macro provisions of INR 1.5bn. Gross loans grew (+15%/5% YoY/QoQ) led by strong disbursements of ~INR 189bn (25%/8% YoY/QoQ). Management remains confident on its retail growth trajectory led by Project Cyclops and digital partnerships, and plans to maintain NIM+fees at ~10-10.5% going forward. With its gold branch count to move up to 200+ by FY26 end, we expect opex to remain elevated and credit costs to normalise gradually. The stock has rallied 30%+ over last 3 months mainly due to improving sentiments around MFI loans. Due to recent sharp rally, stock looks fairly valued given growth/RoE profile on offer. We revise our target multiple for LTF to 2.3x FY27E BVPS with a revised TP of INR 285 (vs. earlier TP of INR 240) and downgrade to ADD.

- **Growth pick up led by gold book:** Disbursements growth during the quarter was strong at (+25%/8% YoY/QoQ both) majorly led by pick-up in consumer loans (+50% QoQ), 2W (+18% QoQ), SME (+15% QoQ) and rural BL (+13% QoQ). Farm equipment de-grew (-25% QoQ), MFI (-11% QoQ) and HL (-4% QoQ) segments. As a result, overall growth came in strong at +5% QoQ, +15% YoY. Within the retail book, growth was driven by PL (+16% QoQ), gold loans (+8% QoQ), LAP (+8% QoQ), SME finance (+7% QoQ) and 2W (+6% QoQ). The company aims to add 70+ gold loan branches (currently at 130 branches) by FY26E which will also cross-sell microLAP, SME and PL. Wholesale book remained largely flat QoQ. Management guides for 20-25% AUM growth for FY26E led by Project Cyclops and government initiatives such as GST rationalization. We build in gross loan growth of ~19% CAGR over FY25-27E (~21% CAGR in retail loans).
- **Margin improves sequentially:** LTF reported largely in PAT of INR 7.4bn (+6%/+5% YoY/QoQ, -2% JMFe) NII grew ~8% YoY/QoQ (+3% JMFe) as reported NIM was up 18bps QoQ led by 18bps decline in yields and 36bps decline in CoFs. PPoP grew 22%/5% YoY/QoQ while credit costs continued to remain elevated at 2.4% (+20bps QoQ) post utilizing macro provisions of INR 1.5bn. Adjusting for this, credit costs would have been 3% (vs 3.4% in Q1). Management highlighted that the company would not have to use its macro provisions moving forward and guided credit costs of ~2% over medium term. We expect EPS CAGR of ~19% over FY25-27E.
- **Steady asset quality:** GS3 was largely steady at 3.29%/1% (-2bps/+1bp QoQ), with PCR at 70% (-53bps QoQ). Retail GS3 improved marginally by -1bp QoQ at 2.92% on which the company maintains PCR of 71.5% (72.3% QoQ). Due to macro utilization during the quarter, the ECL cover on its retail stage 2 declined sharply from ~29% in Q1FY26 to ~23% leading to total provision cover to decline to 3.1% from 3.4% QoQ. The LTF+3 or more lenders now comprise 3.6% of total book (vs 5.2% in Q1FY26). We build in avg credit costs of ~2.5% over FY26-27E.
- **Valuation and View:** The stock has rallied 30%+ over last 3 months with improving sentiments in MFI loans. We believe that the stock is fairly valued given growth/RoE profile. We revise our target multiple for LTF to 2.3x FY27E BVPS with a TP of INR 285 (vs earlier TP of INR 240).



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Recommendation and Price Target

Current Reco.	ADD
Previous Reco.	BUY
Current Price Target (12M)	285
Upside/(Downside)	5.9%
Previous Price Target	240
Change	18.8%

Key Data – LTF IN

Current Market Price	INR269
Market cap (bn)	INR673.3/US\$7.7
Free Float	33%
Shares in issue (mn)	2,488.9
Diluted share (mn)	2,488.9
3-mon avg daily val (mn)	INR1,697.0/US\$19.3
52-week range	274/129
Sensex/Nifty	83,468/25,585
INR/US\$	87.8

Price Performance

%	1M	6M	12M
Absolute	11.7	69.7	61.4
Relative*	10.6	59.7	56.6

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	23,201	26,434	29,638	37,192	47,523
Net Profit (YoY) (%)	42.9%	13.9%	12.1%	25.5%	27.8%
Assets (YoY) (%)	-3.4%	17.2%	15.9%	15.8%	14.6%
ROA (%)	2.2%	2.4%	2.3%	2.5%	2.7%
ROE (%)	10.3%	10.8%	11.1%	12.7%	14.7%
EPS	9.3	10.6	11.9	14.9	19.0
EPS (YoY) (%)	42.4%	13.7%	12.1%	25.5%	27.8%
P/E (x)	28.9	25.4	22.6	18.0	14.1
BV	94	102	111	123	137
BV (YoY) (%)	8.5%	8.8%	8.7%	10.0%	11.7%
P/BV (x)	2.86	2.63	2.42	2.19	1.97

Source: Company data, JM Financial. Note: Valuations as of 16/Oct/2025

JM Financial Research is also available on: Bloomberg - JMFR <GO>, FactSet, LSEG and S&P Capital IQ.

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

LTF – 2QFY26 Performance Update

Exhibit 1. LTF 2QFY26 result snapshot

Income Statement (INR mn)	2Q'25	1Q'26	2Q'26	YoY (%)	QoQ (%)	2Q'26E	A/E
Interest Income	35,270	36,900	38,520	9.2%	4.4%	38,263	0.7%
Interest Expense	14,760	16,360	16,340	10.7%	-0.1%	16,744	-2.4%
Net Interest Income	20,510	20,540	22,180	8.1%	8.0%	21,520	3.1%
Non-Interest Income	4,400	4,930	4,740	7.7%	-3.9%	4,930	-3.9%
Total Income	24,910	25,470	26,920	8.1%	5.7%	26,450	1.8%
Total Operating Expenses	9,580	10,490	10,680	11.5%	1.8%	10,700	-0.2%
Operating Profit (PPP)	15,330	14,980	16,240	5.9%	8.4%	15,750	3.1%
Total Provisions	5,950	5,560	6,350	6.7%	14.2%	5,660	12.2%
PBT	9,380	9,420	9,890	5.4%	5.0%	10,090	-2.0%
Tax	2,430	2,410	2,540	4.5%	5.4%	2,563	-0.9%
PAT (Pre-Extraordinaries)	6,950	7,010	7,350	5.8%	4.9%	7,527	-2.4%
Balance Sheet Data (INR bn)							
Total loans (net)	930	1,023	1,071	15.1%	4.7%		
Disbursements	152	175	189	24.6%	7.8%		
Key ratios (%)							
Yield (%)	15.5%	14.8%	14.7%	-81bps	-4bps		
CoFs (%)	7.1%	7.0%	6.8%	-32bps	-21bps		
NIMs (%)	9.0%	8.2%	8.5%	-56bps	26bps		
Credit Cost (%)	2.6%	2.2%	2.4%	-19bps	20bps		
GS3 (%)	3.19%	3.31%	3.29%	10bps	-2bps		
NS3 (%)	0.96%	0.99%	1.00%	4bps	1bps		
Cost to income (%)	38.5%	41.2%	39.7%	121bps	-151bps		
RoA (%)	2.55%	2.28%	2.32%	-22bps	5bps		
ROE (%)	11.6%	11.0%	11.3%	-35bps	32bps		

Source: Company, JM Financial

LTF – Key takeaways from concall:

Growth/AUM mix

- LTF has been cautious in segments where there is high competitiveness in terms of rates (like pure HL), and would remain cautious for the next couple of quarters before reassessing acceleration.
- LTF plans to further build gold finance franchise through a planned set-up of 200+ new branches in FY26 in a risk-calibrated manner. MFI will continue to grow at a sustainable 15% steady state growth rate. SME post implementation of Cyclops should see improved growth. In the 2W segment, the company has a lot of confidence (as the impact of Cyclops is already visible).
- In personal loans, over 40% of disbursements have happened through digital partners. The commission costs are much lower here than other sourcing channels, and the quality of the customers are also much better.

Margins

- In the aspect of NIM + Fees, yields saw some pressure due to asset quality pressures in MFI leading to changes in loan mix. However currently the RBF disbursements have started picking up again, with CE also improving to 99.5% as of Sep'25. Gold loans business is also expected to be grown at a faster pace (INR 4bn+ disbursement in Sep'25). As the higher yielding book increases, yields should see some benefit. CoF benefits should also start improving by moving towards more CPs in the mix, and as rate cut benefits continue to flow through from banks.
- Fees have been compressing due to MFI pressures, but fees have generally varied in the 1.75% -1.9% ranges, and management is confident in managing fees in the same range.

Asset Quality

- In Q2FY26, board approved utilisation of INR 1.5bn macro-prudential provisions on account of residual flow-forwards. Thus the remaining macro-prudential provision at the end of Q2FY26 now stands at INR 1.25bn.
- Credit cost in (before macro) has been directionally reducing from INR 9.03bn in Q4FY25 to ~INR 7.9mn in Q2FY26. Utilization of macro-prudential provisions have also been reducing, given the improving credit profile.
- Taking into consideration improving CE in the MFI and the recovery in Karnataka, no further utilization from macro provisions is expected from 3Q26 as per management.
- 100% of the underwriting in 2W, farm and MSME business is currently being carried out by project Cyclops (credit underwriting software). Plan is to implement the same in personal loans by 3Q26. In other segments like HLs, Rural Business Finance, LAP etc. the plan is to implement it by FY27.
- Macro prudential provisions would be rebuild gradually, but focus would be more on realizations from the ARC portfolio in the next 18-24 months. Whatever over-realizations that comes from ARC would be used in rebuilding the macro prudential provisions.
- Recovery continued into Q2 with Karnataka CE at 99.05% (Aug'25) & 99.18% (Sept'25), vs. 98.48% in Jun'25.

Guidance

- Management guided for a 2% credit cost target in the medium-term (by ~FY27). Overall credit cost is expected to trend lower in the medium term on account of implementation of Cyclops, Nostradamus.
- The mix of secured to unsecured target for the medium-term is around 65% - 35% (secured: unsecured), and a target of ~60% - 40% in the near-term.
- NIM + fees should be maintained in the ~10-10.5% corridor.
- AUM growth rate target for the full year maintained at ~20-25%. Management is confident to achieve this on the back of Cyclops and government initiatives such as GST rationalization etc.

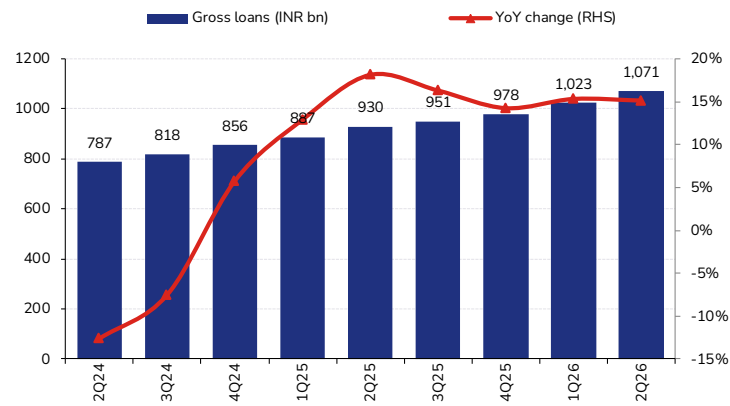
- Opex + Credit cost initially stood at ~7% (4% + 3%), but has been gradually moderating. Management expects this to gradually moderate to 6.5% and later to ~6% over the medium-term (by around FY27 based on visibility on investments, but this could change depending on investment requirements).
- Exit RoA guidance of 2.8% -3% by end of FY27 maintained (excluding any benefits from SR recoveries).

Other Highlights

- In Aug'25 the long term credit rating of LTF got upgraded by S&P from BBB- (positive) to BBB- (stable). Short-term credit rating also got upgraded, and these ratings are currently investment grade.
- On-boarded Google Pay as Big Tech Partner in Q2FY26. Disbursements through Big Tech Partnerships with Amazon, Google Pay, CRED and PhonePe have scaled to INR 11.4bn in Q2FY26, compared to INR 6.5bn in Q1FY26.
- Beta version of project Nostradamus (AI driven portfolio management engine) has been fully implemented in 2W segment in Aug'25. Full implementation is expected by Dec'25.

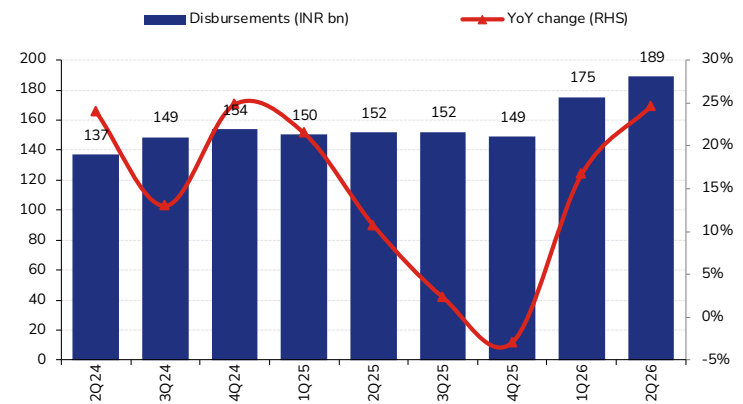
Quarterly Trends

Exhibit 2. Gross loans growth driven by 18% growth in retail segment



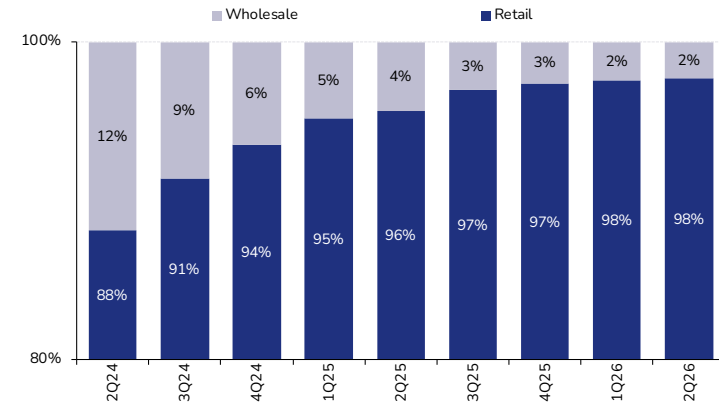
Source: Company, JM Financial

Exhibit 3. Disbursements growth stood at 25% YoY (vs. 17% YoY in 1Q26)



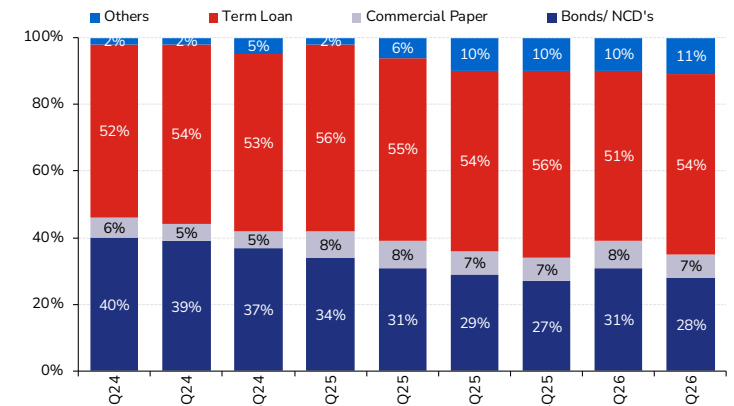
Source: Company, JM Financial

Exhibit 4. Share of retail loans now forms ~98% of the book



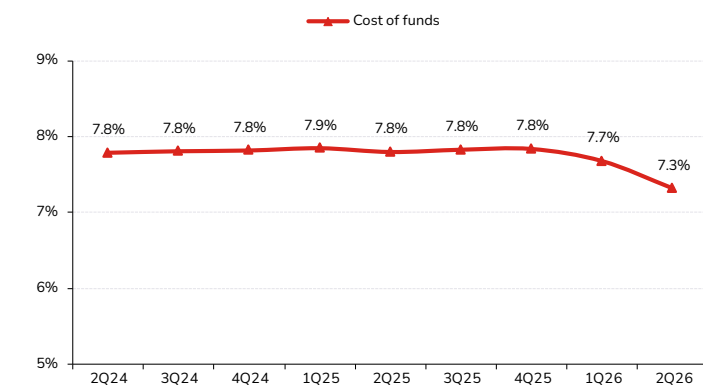
Source: Company, JM Financial

Exhibit 5. Share of term loans increased sequentially



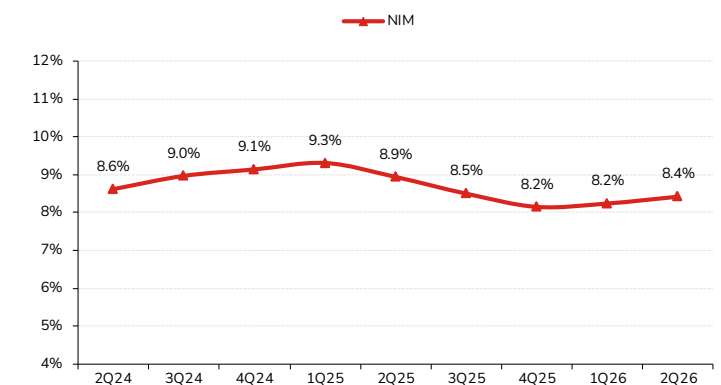
Source: Company, JM Financial

Exhibit 6. Cost of funds (reported) declined 36bps QoQ



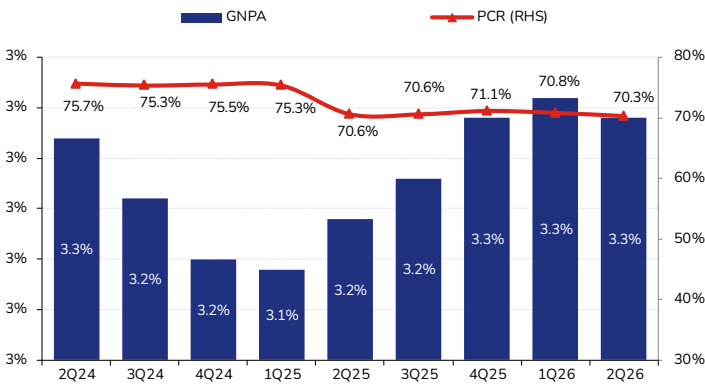
Source: Company, JM Financial

Exhibit 7. NIMs (reported) improved 18bps QoQ



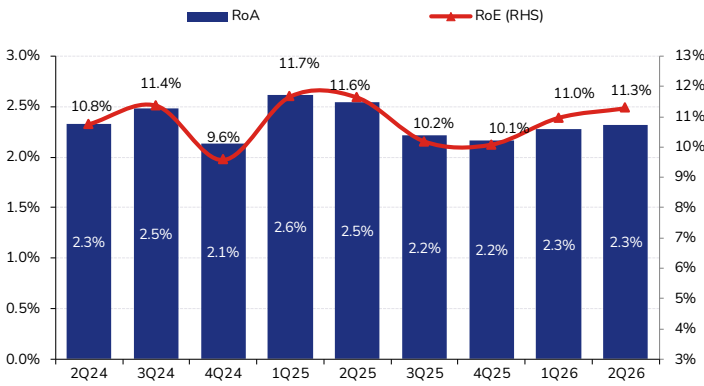
Source: Company, JM Financial

Exhibit 8. Steady asset quality



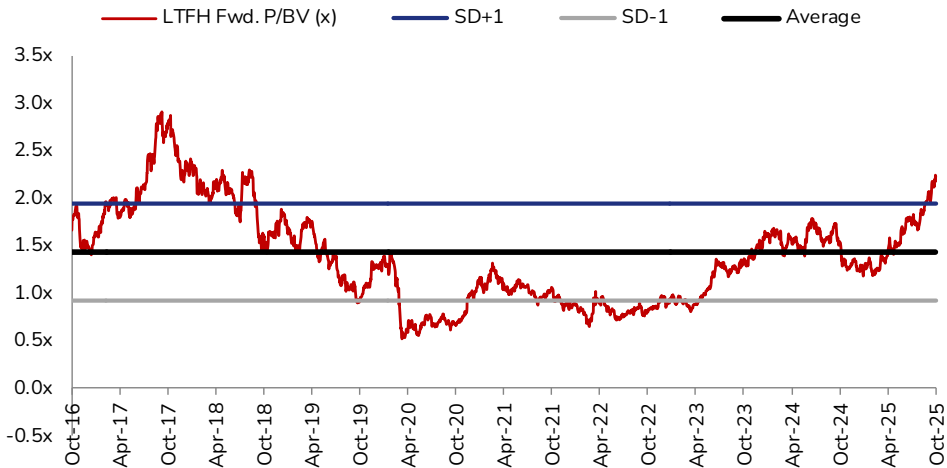
Source: Company, JM Financial

Exhibit 9. Return ratios improved sequentially



Source: Company, JM Financial

Exhibit 10. LTF: One year forward P/B chart



Source: Bloomberg L.P., Company, JM Financial

Financial Tables (Consolidated)

Income Statement (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Interest Income (NII)	75,367	86,665	90,527	1,08,701	1,30,202
Non Interest Income	7,802	12,777	19,556	23,875	29,200
Total Income	83,170	99,442	1,10,084	1,32,576	1,59,402
Operating Expenses	35,079	39,846	43,862	51,881	61,617
Pre-provisioning Profits	48,091	59,597	66,222	80,695	97,784
Loan-Loss Provisions	13,164	21,942	26,493	31,107	34,420
Others Provisions	4,637	2,742	0	0	0
Total Provisions	17,801	24,684	26,493	31,107	34,420
PBT	30,290	34,913	39,729	49,589	63,364
Tax	7,119	8,478	10,091	12,397	15,841
PAT (Pre-Extra ordinaries)	23,171	26,434	29,638	37,192	47,523
Extra ordinaries (Net of Tax)	30	0	0	0	0
Reported Profits	23,201	26,434	29,638	37,192	47,523
Dividend	6,222	6,861	7,409	9,298	11,881
Retained Profits	16,979	19,573	22,228	27,894	35,642

Source: Company, JM Financial

Balance Sheet (INR mn)					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Equity Capital	24,889	24,949	24,949	24,949	24,949
Reserves & Surplus	2,09,495	2,30,692	2,52,920	2,80,814	3,16,456
Stock option outstanding	0	0	0	0	0
Borrowed Funds	7,65,409	9,23,724	10,89,995	12,75,294	14,66,588
Deferred tax liabilities	237	256	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	27,145	24,473	28,043	34,886	43,440
Total Liabilities	10,27,176	12,04,094	13,95,907	16,15,943	18,51,433
Net Advances	8,13,594	9,37,731	11,20,239	13,34,712	15,67,070
Investments	1,23,849	1,18,760	1,24,698	1,30,933	1,34,861
Cash & Bank Balances	46,760	1,08,329	1,13,746	1,16,021	1,18,341
Loans and Advances	2,505	1,225	1,286	1,312	1,338
Other Current Assets	13,431	10,221	7,775	4,590	1,302
Fixed Assets	5,416	6,726	7,062	7,274	7,419
Miscellaneous Expenditure	3,051	3,271	3,271	3,271	3,271
Deferred Tax Assets	18,570	17,831	17,831	17,831	17,831
Total Assets	10,27,176	12,04,094	13,95,907	16,15,943	18,51,433

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	-7.8%	20.7%	18.0%	17.0%	15.0%
Advances	8.3%	15.3%	19.5%	19.1%	17.4%
Total Assets	-3.4%	17.2%	15.9%	15.8%	14.6%
NII	11.4%	15.0%	4.5%	20.1%	19.8%
Non-interest Income	572.3%	63.8%	53.1%	22.1%	22.3%
Operating Expenses	23.8%	13.6%	10.1%	18.3%	18.8%
Operating Profits	18.7%	23.9%	11.1%	21.9%	21.2%
Core Operating profit	20.8%	19.6%	10.7%	20.4%	20.2%
Provisions	-7.3%	38.7%	7.3%	17.4%	10.7%
Reported PAT	42.9%	13.9%	12.1%	25.5%	27.8%
Yields / Margins (%)					
Interest Spread	6.11%	6.52%	5.81%	6.07%	6.34%
NIM	9.06%	9.45%	8.44%	8.49%	8.61%
Profitability (%)					
ROA	2.22%	2.37%	2.28%	2.47%	2.74%
ROE	10.3%	10.8%	11.1%	12.7%	14.7%
Cost to Income	42.2%	40.1%	39.8%	39.1%	38.7%
Asset quality (%)					
Gross NPA	3.24%	3.35%	3.24%	3.01%	3.03%
LLP	1.70%	2.21%	2.04%	2.07%	1.99%
Capital Adequacy (%)					
Tier I	21.02%	20.76%	21.19%	20.03%	19.41%
CAR	22.84%	22.27%	22.69%	21.52%	20.90%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	7.21%	7.77%	6.96%	7.22%	7.51%
Other Income / Assets	0.75%	1.15%	1.50%	1.59%	1.68%
Total Income / Assets	7.96%	8.91%	8.47%	8.80%	9.19%
Cost / Assets	3.36%	3.57%	3.37%	3.45%	3.55%
PPP / Assets	4.60%	5.34%	5.09%	5.36%	5.64%
Provisions / Assets	1.70%	2.21%	2.04%	2.07%	1.99%
PBT / Assets	2.90%	3.13%	3.06%	3.29%	3.65%
Tax rate	23.5%	24.3%	25.4%	25.0%	25.0%
ROA	2.22%	2.37%	2.28%	2.47%	2.74%
Leverage	4.4	4.7	5.0	5.3	5.4
ROE	10.3%	10.8%	11.1%	12.7%	14.7%

Source: Company, JM Financial

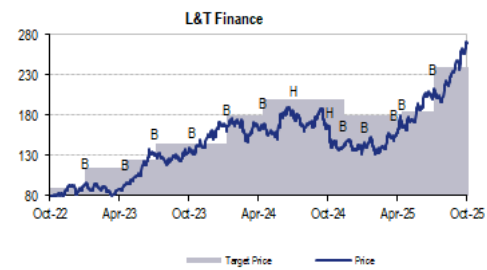
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	2,488.9	2,494.9	2,494.9	2,494.9	2,494.9
EPS (INR)	9.3	10.6	11.9	14.9	19.0
EPS (YoY) (%)	42.4%	13.7%	12.1%	25.5%	27.8%
P/E (x)	28.9	25.4	22.6	18.0	14.1
BV (INR)	94	102	111	123	137
BV (YoY) (%)	8.5%	8.8%	8.7%	10.0%	11.7%
P/BV (x)	2.86	2.63	2.42	2.19	1.97
DPS (INR)	2.5	2.8	3.0	3.7	4.8
Div. yield (%)	0.9%	1.0%	1.1%	1.4%	1.8%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
2-May-21	Buy	105	
19-Jul-21	Buy	105	0.0
22-Oct-21	Buy	105	0.0
24-Jan-22	Buy	90	-14.3
4-May-22	Buy	90	0.0
20-Jul-22	Buy	90	0.0
24-Oct-22	Buy	90	0.0
17-Jan-23	Buy	115	27.8
2-May-23	Buy	125	8.7
20-Jul-23	Buy	145	16.0
24-Oct-23	Buy	145	0.0
24-Jan-24	Buy	180	24.1
29-Apr-24	Buy	200	11.1
18-Jul-24	Hold	200	0.0
21-Oct-24	Hold	200	0.0
26-Nov-24	Buy	180	-10.0
22-Jan-25	Buy	180	0.0
8-Apr-25	Buy	175	-2.8
28-Apr-25	Buy	185	5.7
21-Jul-25	Buy	240	29.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

New Rating System: Definition of ratings	
Rating	Meaning
BUY	Expected return $\geq$ 15% over the next twelve months.
ADD	Expected return $\geq$ 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return $\geq$ -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	Meaning
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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