

## L&T Finance

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

|                       |             |
|-----------------------|-------------|
| Bloomberg             | LTF IN      |
| Equity Shares (m)     | 2506        |
| M.Cap.(INRb)/(USDb)   | 635.4 / 6.7 |
| 52-Week Range (INR)   | 339 / 235   |
| 1, 6, 12 Rel. Per (%) | -14/-5/4    |
| 12M Avg Val (INR M)   | 2026        |

### Financials Snapshot (INR b)

| Y/E March    | FY26 | FY27E | FY28E |
|--------------|------|-------|-------|
| Total Income | 99.0 | 129.2 | 155.6 |
| PPP          | 67.4 | 88.4  | 103.1 |
| PAT          | 29.8 | 41.1  | 48.7  |
| EPS (INR)    | 11.9 | 16.4  | 19.4  |
| EPS Gr. (%)  | 12.3 | 37.9  | 18.4  |
| BV/Sh. (INR) | 112  | 125   | 141   |

### Ratios

|               |      |      |      |
|---------------|------|------|------|
| NIM (%)       | 9.4  | 9.9  | 9.7  |
| C/I ratio (%) | 39.8 | 38.5 | 38.7 |
| RoAA (%)      | 2.3  | 2.6  | 2.6  |
| RoE (%)       | 11.1 | 13.8 | 14.6 |
| Payout (%)    | 23.1 | 25.0 | 25.0 |

### Valuation

|                |      |      |      |
|----------------|------|------|------|
| P/E (x)        | 21.3 | 15.5 | 13.1 |
| P/BV (x)       | 2.3  | 2.0  | 1.8  |
| Div. Yield (%) | 1.1  | 1.6  | 1.9  |

### Shareholding pattern (%)

| As of    | Jun-26 | Mar-26 | Jun-25 |
|----------|--------|--------|--------|
| Promoter | 66.0   | 66.0   | 66.2   |
| DII      | 14.9   | 14.9   | 14.1   |
| FII      | 7.7    | 7.6    | 6.2    |
| Others   | 11.4   | 11.5   | 13.5   |

FII includes depository receipts

**CMP: INR254 TP: INR330 (+30%) Buy**

### Strong execution; insurance distribution income needs firm offset

#### Lower CoB keeps NIM stable; tractor, 2W and MFI need closer monitoring

- L&T Finance's (LTF) 2QFY27 PAT grew 32% YoY to INR9.7b (in line). NII grew ~33% YoY to INR31.9b (in line). Opex grew ~28% YoY to ~INR13.7b (in line). Cost-income ratio increased ~20bp QoQ to ~38.9% (PQ: ~38.7%). PPoP grew ~31% YoY to ~INR21.5b (in line).
  - Credit costs stood at INR8.3b (in line). Reported credit costs declined 8bp QoQ to 2.46% (PQ: 2.54%). Consol. RoA/RoE stood at ~2.6%/13.6%.
  - LTF aims to sustain a 20%+ AUM CAGR through FY31, underpinned by a calibrated shift toward a more diversified, scalable and higher-yielding business mix. Improving distribution and productivity, supported by the expansion of multi-product Sampoorana branches, Hercules-led cross-selling, digital acquisition capabilities and the payments platform, should deepen customer engagement, enhance revenue diversification and support sustainable growth.
  - The company expects its NIM+fee trajectory to remain in the 10-10.5% range over the next two quarters, supported by proactive liability management, a lower borrowing cost base and a calibrated business mix. The reduction in borrowing costs to ~6.95% (as of Sep'26) provides a cushion against the anticipated hardening of interest rates.
  - LTF's healthy disbursement momentum, improving asset quality and proactive liability management provide a solid foundation for sustainable growth. Continued expansion across retail lending, disciplined risk calibration and technology-led efficiencies should support credit cost moderation and improve profitability, keeping the company on track to deliver its targeted growth and return objectives.
  - We estimate a CAGR of ~24% 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 going forward.
- Reiterate BUY with a TP of INR330 (based on 2.2x Sep'28E BVPS).**

### Proactive liability management helps keep NIM + fee income stable

- Spreads (calc.) rose ~30bp QoQ to ~8.9%. Yields (calc.) declined ~8bp QoQ to ~15.5%, while CoF (calc.) fell ~40bp QoQ to 6.6%. Reported yields were broadly stable QoQ at 14.8% and CoB declined ~25bp QoQ to 6.95% (PQ: 7.2%). Reported NIM + fees were stable QoQ at ~10.5%.
- The 25bp decline in CoB was driven by favorable liquidity conditions and lower market rates during Jul-Aug'26, which enabled the company to refinance high-cost borrowings and raise incremental funds at more attractive rates. Higher CP issuance across 6M-12M tenures and timely mobilization of even medium-to-long-term borrowings helped LTF secure a ~25bp QoQ decline in its weighted cost of borrowings. We expect LTF to deliver NIMs of ~9.9%/9.7% in FY27E/FY28E (FY26: ~9.4%)

### Strong disbursements, diversified retail growth drive loan book expansion

- Total loan book grew ~28% YoY and ~5.4% QoQ to ~INR1.37t. Wholesale loans were broadly stable at ~INR20b. Disbursements rose 27% YoY to INR240b. Growth in secured disbursements was led by 2W finance, which grew 26% YoY to INR31.7b. Gold finance disbursements grew ~229% YoY to INR32.4b. Personal loan disbursements stood at INR42.3b (up 45% YoY). Rural business finance disbursements were stable YoY at ~INR63.6b.
- Retail loans grew ~29% YoY, led by healthy growth in gold and personal loans. Personal loans witnessed robust growth of ~72% YoY. Rural business loans (MFI) grew ~22% YoY, gold loan book grew 242% YoY and SME loans rose 27% YoY.
- Gold lending is expected to remain a key growth driver, with the company targeting a 14-15% share of AUM, or INR400b-450b, by FY31. Growth across LAP, personal loans and SME, alongside the company's higher-yielding affordable housing offering, should provide additional levers for loan growth. We expect LTF to deliver AUM growth of ~24% for FY26-28E.

### Improving asset quality with credit costs expected to moderate further

- Consol. GS3 declined ~10bp QoQ to ~2.75%, while NS3 declined ~5bp QoQ to ~0.85%. Retail GS3/NS3 stood at ~2.43%/0.73%.
- LTF expects credit costs to moderate toward the guided range of 2.0-2.2% by 4QFY27, supported by improving credit metrics across businesses, disciplined underwriting and AI-led collection efficiencies. Calibrated rural disbursements and insurance-backed portfolio protection (CGFMU and parametric insurance) should further strengthen risk management as growth momentum improves. We model credit costs of ~2.5%/2.3% for FY27E/FY28E.

### Highlights from management commentary

- Management remains confident that through revenue diversification and business model adjustments, the impact of regulatory changes can be managed with minimal impact on the Lakshya 2031 targets.
- The 2W portfolio was stable, with 90+ dpd (in the portfolio originated under Cyclops underwriting) at ~1.2%.

### Valuation and view

- LTF's healthy 2QFY27 performance and calibrated expansion across growth businesses provide a solid foundation for the coming quarters. Continued improvement in credit costs, disciplined underwriting and technology-led efficiencies are expected to support earnings growth and enhance return ratios, while the expanding gold loan franchise and diversified revenue streams provide further levers for improvement in the RoA trajectory in the coming quarters.
- The company currently trades at 1.8x FY28E P/B. We estimate a CAGR of ~24% in the loan book and ~28% in PAT over FY26-28E, with consolidated RoA/RoE of 2.6%/15% in FY28E. The final guidelines on insurance distribution commissions (if implemented in its current form) can result in significant revenue impact for LTF (and the broader NBFC industry). However, management remains confident of offsetting the impact through revenue diversification (through cross-sell and other levers) and adjustments to the business model. **Maintain BUY with a TP of INR330 (based on 2.2x Sep'28E BVPS).**

**Quarterly performance**
**(INR M)**

| Y/E March                         | FY26   |        |        |        |        | FY27E  |        |        |          | FY26     | FY27E  | 2QFY27E | v/s Est. |
|-----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|----------|----------|--------|---------|----------|
|                                   | 1Q     | 2Q     | 3Q     | 4Q     | 1Q     | 2Q     | 3Q     | 4Q     |          |          |        |         |          |
| Interest Income                   | 39,145 | 40,374 | 42,401 | 44,240 | 48,949 | 51,578 | 54,570 | 57,714 | 1,66,160 | 2,12,812 | 51,543 | 0       |          |
| Interest Expenses                 | 16,357 | 16,343 | 17,030 | 17,470 | 19,701 | 19,705 | 21,360 | 22,798 | 67,201   | 83,564   | 20,981 | -6      |          |
| Net Interest Income               | 22,788 | 24,031 | 25,371 | 26,770 | 29,248 | 31,874 | 33,210 | 34,916 | 98,959   | 1,29,248 | 30,562 | 4       |          |
| Change YoY (%)                    | 8.4    | 10.3   | 13.4   | 24.5   | 28.4   | 32.6   | 30.9   | 30.4   | 14.2     | 30.6     | 27.2   |         |          |
| Other Operating Income            | 3,451  | 2,983  | 3,382  | 3,470  | 3,180  | 3,263  | 3,800  | 3,866  | 12,977   | 14,110   | 3,670  | -11     |          |
| Net Operating Income              | 26,238 | 27,015 | 28,753 | 30,240 | 32,429 | 35,137 | 37,010 | 38,783 | 1,11,936 | 1,43,358 | 34,232 | 3       |          |
| Change YoY (%)                    | 7.8    | 6.2    | 13.7   | 24.8   | 23.6   | 30.1   | 28.7   | 28.2   | 12.8     | 28.1     | 26.7   |         |          |
| Other income                      | 0      | 0      | 32     | 1      | 304    | 1      | 45     | 20     | 34       | 370      | 152    | -100    |          |
| Total Income                      | 26,239 | 27,015 | 28,785 | 30,241 | 32,732 | 35,138 | 37,055 | 38,803 | 1,11,970 | 1,43,728 | 34,384 | 2       |          |
| Change YoY (%)                    | 7.8    | 6.0    | 13.5   | 24.6   | 24.7   | 30.1   | 28.7   | 28.3   | 12.6     | 28.4     | 27.3   |         |          |
| Operating Expenses                | 10,486 | 10,680 | 11,350 | 12,013 | 12,668 | 13,675 | 14,188 | 14,846 | 44,529   | 55,376   | 13,137 | 4       |          |
| Change YoY (%)                    | 8.6    | 11.5   | 7.3    | 19.7   | 20.8   | 28.0   | 25.0   | 23.6   | 11.8     | 24.4     | 23.0   |         |          |
| Operating Profits                 | 15,753 | 16,335 | 17,435 | 18,228 | 20,064 | 21,463 | 22,867 | 23,957 | 67,440   | 88,351   | 21,247 | 1       |          |
| Change YoY (%)                    | 7.3    | 2.7    | 18.0   | 28.0   | 27.4   | 31.4   | 31.2   | 31.4   | 13.2     | 31.0     | 30.1   |         |          |
| Provisions                        | 6,320  | 6,446  | 7,513  | 7,489  | 7,701  | 8,274  | 8,444  | 8,583  | 27,459   | 33,002   | 8,052  | 3       |          |
| Profit before Tax                 | 9,432  | 9,889  | 9,922  | 10,739 | 12,363 | 13,188 | 14,423 | 15,374 | 39,982   | 55,349   | 13,195 | 0       |          |
| Tax Provisions                    | 2,424  | 2,540  | 2,542  | 2,648  | 3,203  | 3,461  | 3,606  | 3,568  | 10,153   | 13,837   | 3,272  | 6       |          |
| Profit after tax (Pre-NCI)        | 7,008  | 7,349  | 7,380  | 8,092  | 9,160  | 9,728  | 10,818 | 11,807 | 29,829   | 41,512   | 9,923  | -2      |          |
| NCI                               | -3     | 0      | -6     | 25     | 135    | -23    | 115    | 173    | 17       | 400      | 160.0  |         |          |
| Profit after tax (Post-NCI)       | 7,011  | 7,348  | 7,386  | 8,066  | 9,025  | 9,751  | 10,703 | 11,634 | 29,812   | 41,112   | 9,763  | 0       |          |
| Change YoY (%)                    | 2      | 6      | 18     | 27     | 29     | 33     | 45     | 44     | 13       | 38       | 32.9   |         |          |
| Key Operating Parameters (%)      |        |        |        |        |        |        |        |        |          |          |        |         |          |
| Rep. Net Income (% of Avg Assets) | 10.22  | 10.22  | 10.41  | 10.47  | 10.47  | 10.48  |        |        |          |          |        |         |          |
| Rep. Cost of funds (%)            | 7.68   | 7.32   | 7.25   | 7.17   | 7.20   | 6.95   |        |        |          |          |        |         |          |
| Cost to Income Ratio              | 40.0   | 39.5   | 39.4   | 39.7   | 38.7   | 38.9   | 38.3   | 38.3   |          |          |        |         |          |
| Rep Credit Cost                   | 2.23   | 2.41   | 2.83   | 2.64   | 2.54   | 2.46   |        |        |          |          |        |         |          |
| Tax Rate                          | 25.7   | 25.7   | 25.6   | 24.7   | 25.9   | 26.2   | 25.0   | 23.2   |          |          |        |         |          |
| Balance Sheet Parameters          |        |        |        |        |        |        |        |        |          |          |        |         |          |
| Gross Customer Assets (INR B)     | 1,023  | 1,071  | 1,143  | 1,217  | 1,296  | 1,366  | 1,448  | 1,517  |          |          |        |         |          |
| Change YoY (%)                    | 15.3   | 15.1   | 20.1   | 24.5   | 26.7   | 27.6   | 26.7   | 24.6   |          |          |        |         |          |
| Borrowings (INR B)                | 938    | 977    | 1,026  | 1,099  | 1,154  | 1,233  | 1,305  | 1,352  |          |          |        |         |          |
| Change YoY (%)                    | 16.8   | 15.1   | 19.0   | 19.1   | 23.1   | 26.1   | 27.2   | 23.0   |          |          |        |         |          |
| Customer Assets /Borrowings (%)   | 109    | 110    | 111    | 111    | 112    | 111    | 111    | 112    |          |          |        |         |          |
| Asset Quality Parameters (%)      |        |        |        |        |        |        |        |        |          |          |        |         |          |
| GS 3 (INR B)                      | 33.9   | 35.2   | 36.5   | 35.1   | 37.0   | 37.6   |        |        |          |          |        |         |          |
| Gross Stage 3 (%)                 | 3.30   | 3.29   | 3.19   | 2.88   | 2.86   | 2.75   |        |        |          |          |        |         |          |
| NS 3 (INR B)                      | 9.9    | 10.5   | 10.2   | 11.5   | 11.4   | 11.4   |        |        |          |          |        |         |          |
| Net Stage 3 (%)                   | 0.96   | 0.98   | 0.92   | 0.96   | 0.90   | 0.85   |        |        |          |          |        |         |          |
| PCR (%)                           | 70.8   | 70.3   | 71.9   | 67.3   | 69.3   | 69.8   |        |        |          |          |        |         |          |
| Return Ratios (%)                 |        |        |        |        |        |        |        |        |          |          |        |         |          |
| ROAA                              | 2.4    | 2.4    | 2.4    | 2.4    | 2.5    | 2.6    |        |        |          |          |        |         |          |
| ROAE                              | 10.9   | 11.3   | 11.1   | 11.7   | 12.7   | 13.6   |        |        |          |          |        |         |          |

E: MOFSL Estimates



## Highlights from the management commentary

### Guidance

- LTF is committed to achieving a ~20%+ AUM CAGR over the Lakshya 2026-31 period, supported by growth across secured and unsecured businesses.
- The company is confident of bringing credit costs in the guided 2.0-2.2% corridor by 4QFY27, from 2.46% in 2QFY27, supported by improving credit metrics across businesses, stronger collections, and AI-led portfolio management.
- Management reiterated its target of achieving ROA of 2.8-3% by 4QFY27 (vs. 2.6% in 2QFY27), and remains committed to its FY31 ROA target of 3-3.2%.
- The NIM-plus-fee trajectory is expected to remain in the range of ~10-10.5% over the next two quarters.
- Gold loans are expected to remain a key growth driver through FY27 and FY28, with the company targeting a ~14-15% share of overall AUM, or INR400-450b, by FY31.
- Management expects rural disbursements to increase gradually in 3QFY27 as visibility on the monsoon improves, while maintaining calibrated underwriting standards and risk guardrails.
- LTF plans to establish ~500 gold loan branches and ~200 micro-LAP branches in FY27.
- Management expects the impact of the proposed IRDAI insurance distribution guidelines to be manageable over the Lakshya 2031 period, with revenue diversification through cross-selling, payments and other fee-generating businesses helping offset potential impact of lower insurance distribution income.

### Macro and opening remarks

- The global economic environment remains uncertain due to renewed conflict in West Asia, crude oil price volatility and expectations of higher-for-longer interest rates. However, India's domestic demand fundamentals and underlying consumption drivers remain resilient.
- India's real GDP grew 7.8% in 1QFY27, aided by robust private consumption, investment and exports. Credit demand also remains strong despite intermittent volatility in domestic financial markets. Input cost pressures have intensified, although the pass-through to customers has remained limited so far.
- Monsoon progress remains an important variable for the financial services industry. While rainfall improved in July, early-season deficits and below-normal rainfall across several regions could affect agricultural output, water availability and rural cash flows.
- Rural consumption continues to be supported by resilient non-farm activity, government transfers and favorable agricultural terms of trade, although localized yield pressures and moderation in rural sentiment remain potential risks.
- Urban demand is supported by steady services activity and broadly stable employment conditions. Manufacturing activity has also held up despite cost pressure, while services continue to benefit from resilient domestic and external demand.

### **Insurance distribution and regulatory developments**

- LTF recognizes that the proposals aim to improve insurance affordability and support the government's Insurance for All vision under Viksit Bharat 2047. However, the company believes further consultation is required to preserve the economic rationale for financial services entities to distribute insurance products.
- The company intends to seek a more gradual transition in distributor commissions, aligned with the glide path proposed for insurers under expense-of-management regulations. Management expects continued dialogue with the regulator to help achieve a balanced outcome for consumers, distributors and manufacturers.
- The company believes there is scope for a softer landing than the measures currently proposed in the consultation paper, although the insurance distribution business model may need to evolve over time.
- LTF aims to mitigate potential revenue losses by expanding cross-selling, developing new fee-generating businesses and scaling the payments platform. The company is also establishing a dedicated retail insurance distribution channel to optimize distribution economics.
- Management remains confident that the impact of regulatory changes can be managed with minimal disruption to the broader Lakshya 2031 objectives through revenue diversification and business model adjustments.

### **Rural business and asset quality**

- LTF deliberately moderated rural disbursements and strengthened underwriting guardrails in 2QFY27 amid uncertainty surrounding monsoon progress and potential pressure on rural cash flows.
- Rainfall patterns remained uneven, with northern and north-eastern regions receiving reasonably adequate rainfall, while central India experienced below-average rainfall. The company tightened underwriting parameters in the affected districts and moderated rural disbursements, including tractor financing, in response to both weather conditions and relatively muted customer demand.
- Management indicated that no significant risk build-up has been observed in the rural portfolio during this period. With greater clarity on the monsoon outlook, the company expects a calibrated increase in rural disbursements in 3QFY27, supported by festive-season demand, while continuing to monitor emerging risks.
- Coverage of select customer cohorts under the CGFMU credit guarantee scheme and insurance is expected to strengthen protection against potential rural portfolio losses. The company also participates in the CGTMSE scheme to mitigate risks in eligible SME exposures.
- The two-wheeler portfolio remains stable, with 90+ day delinquencies at ~1.2%.
- Bihar has not experienced any material adverse impact from flooding, and management expects credit quality to remain stable across microfinance and two-wheeler lending. Insurance coverage has also helped recover a portion of the losses and offset much of the associated premium cost.

### Business performance and financial highlights

- Retail disbursements increased 27% YoY to INR240b, with contributions from all business lines. Growth was supported by a strong customer acquisition funnel, granular distribution channels, an expanding branch network, digital acquisition capabilities and AI-powered credit administration.
- LTF reported a ~25bp decline in its cost of borrowings, supported by favorable liquidity conditions during July and August, lower market interest rates and proactive liability management.
- Management used the favorable funding environment to replace some high-cost borrowings, increase commercial paper funding across six-month to one-year tenures and raise funds at lower rates. The resulting borrowing cost base of 6.95% is expected to provide protection against potential increases in funding costs over the next three to four quarters.
- Opex remained range-bound at 4.08% despite continued investments in branch expansion, technology and implementation of the Cyclops and Nostradamus platforms. Efficiency gains and operating savings are helping absorb these investments.

### Lakshya 2031 and strategic priorities

- LTF has outlined three strategic priorities for FY27: deepening cross-selling and upselling, enhancing productivity, and embedding a strong technology-led operating culture across the organization.
- The Hercules cross-sale engine was rolled out across select business lines in 2QFY27, with promising initial results.
- LTF is transitioning its physical distribution network from single-product touchpoints to integrated, multi-product sales and service hubs. Gold finance branches are being progressively converted into Sampurna branches to improve customer lifetime value and cross-sell opportunities.
- Management expects the payments platform and cross-selling initiatives to become additional sources of fee income, supporting revenue diversification and the long-term Lakshya 2031 objectives.
- The company is also working to reduce its cost-to-income ratio through technology-led efficiencies, process improvements and better branch productivity.

### Business-wise updates and growth initiatives

- **Affordable housing:** The company launched its ARAM housing loan product for the economical housing segment in non-metro and peripheral urban markets, with ticket sizes ranging from INR2m to INR5m. The product is expected to generate higher yields than the existing lower-ticket housing loan portfolio.
- **SME lending:** Around ~80% of the portfolio is covered under the CGTMSE credit guarantee scheme, providing additional protection as the company pursues calibrated growth.
- **Growth businesses:** Micro-LAP, personal loans, gold loans and SME lending remain key growth engines. LTF expects these businesses to offset the planned contraction in microfinance and support the overall 20%+ AUM CAGR target through FY31.

- **Customer pricing:** The company continues to follow risk-based pricing across businesses. Repeat customers benefit from their established repayment history, while new customers are priced according to their individual risk profiles. Management intends to maintain disciplined underwriting while protecting yields.

### **Gold loan business and branch expansion**

- Gold loans are expected to remain a significant growth driver over the next two years, with the company targeting a 14-15% share of overall AUM by FY31, equivalent to INR400-450b.
- The company expects to add branches through the quarter and plans to expand the network toward ~2,000 branches before pausing to consolidate.
- Management highlighted that new branches generally attain critical operating scale within six months, with business break-even typically taking eight to nine months. Existing presence in rural and semi-urban markets and the strength of the L&T brand help accelerate customer acquisition and branch productivity.

### **Funding, Cost of Borrowings and Margins**

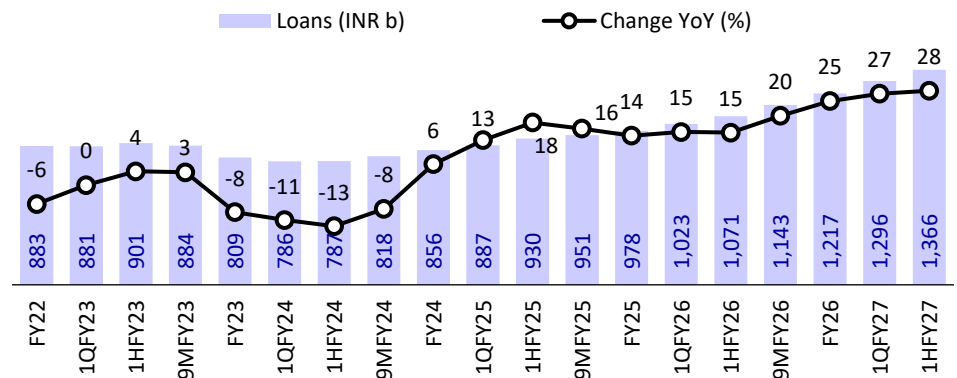
- LTF maintains a broadly matched mix of fixed- and floating-rate assets and liabilities, helping manage interest rate movements.
- Management expects the NIM-plus-fee trajectory to remain at 10-10.5% over the next two quarters.

### **Operating efficiency and technology**

- Opex remained range-bound at 4.08% as the company continued investing in physical distribution and technology infrastructure. Management does not expect a significant near-term movement in the opex-to-book ratio as branch expansion continues.
- LTF established 172 branches in the 1HFY27 and is continuing to roll out branches for rural LAP and gold loans, alongside additional meeting centers.
- Collection costs have declined as the Cyclops-underwritten portfolio gains scale and fewer accounts roll forward into delinquency. The increasing use of collection bots is also helping improve efficiency and reduce servicing costs.
- Management expects continued efficiency gains to absorb the cost of branch additions and technology investments, while maintaining the focus on improving the cost-to-income ratio.

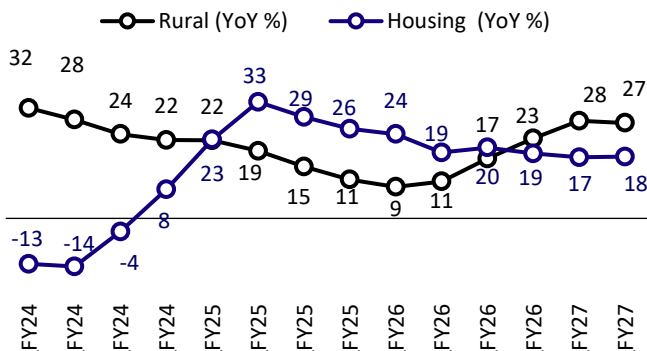
## Key exhibits

**Exhibit 1: Loan book grew 28% YoY/5.4% QoQ**



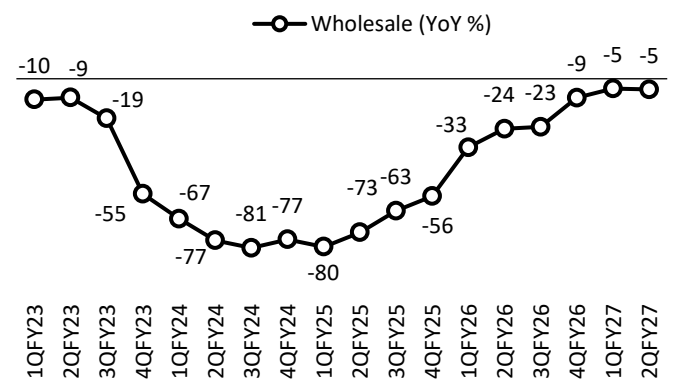
Source: MOFSL, Company

**Exhibit 2: Housing finance book grew ~18% YoY**



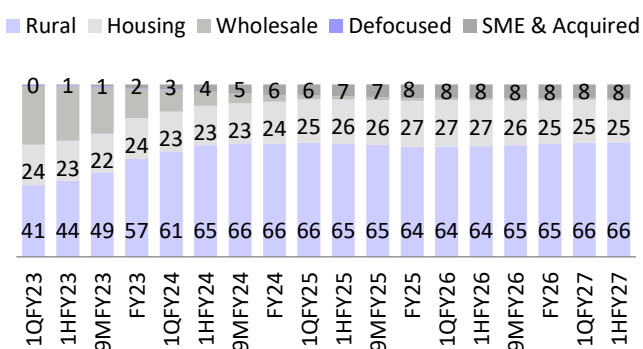
Source: MOFSL, Company

**Exhibit 3: Wholesale book declined 5% YoY**



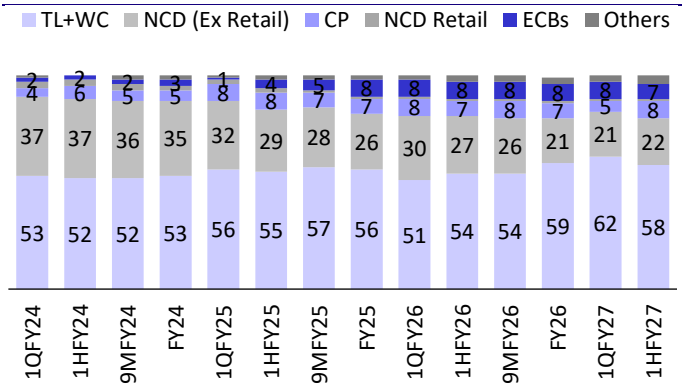
Source: MOFSL, Company

**Exhibit 4: Loan mix remained largely stable QoQ**



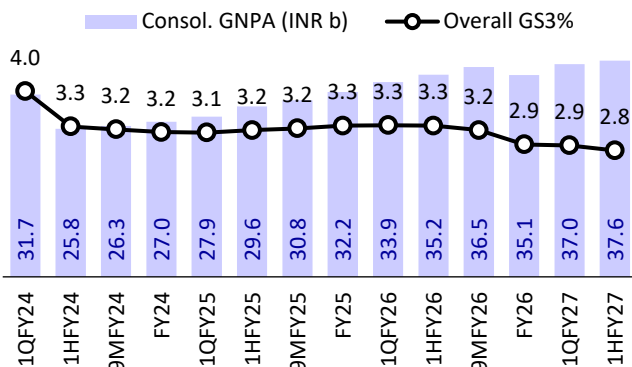
Source: MOFSL, Company

**Exhibit 5: Borrowing mix (%)**



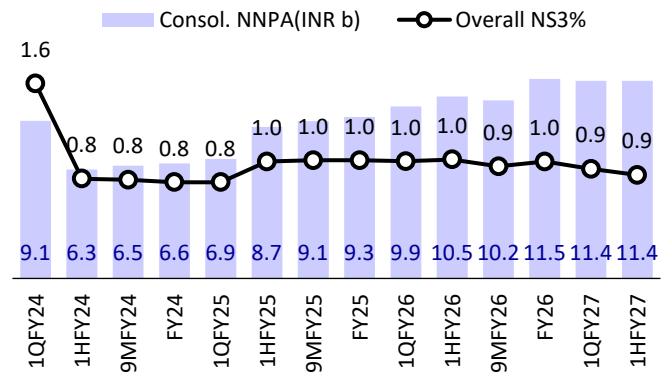
Source: MOFSL, Company

**Exhibit 6: GS3 declined ~10bp QoQ (%)**



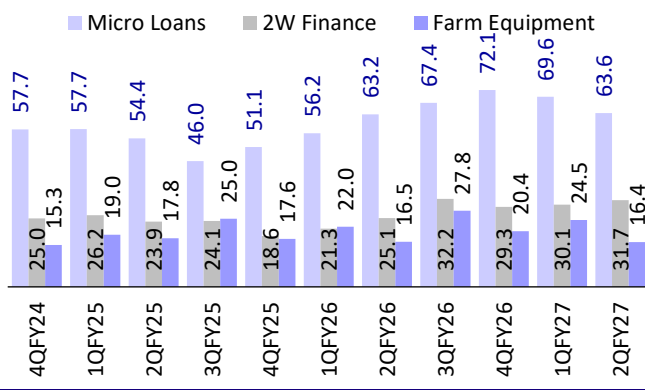
Source: MOFSL, Company

**Exhibit 7: NS3 declines ~5bp QoQ (%)**



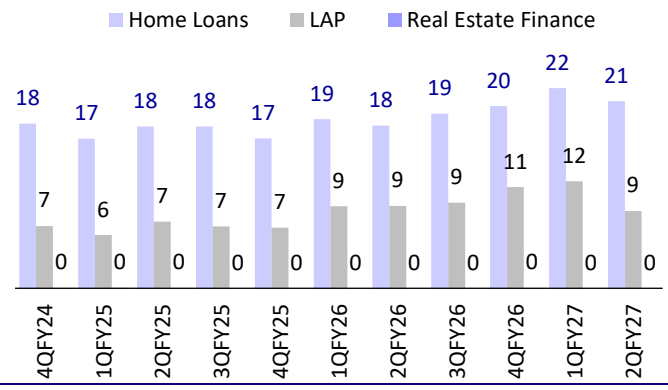
Source: MOFSL, Company

**Exhibit 8: Rural disbursements (INR b)**



Source: MOFSL, Company

**Exhibit 9: Home loan disbursements improved YoY (INR b)**

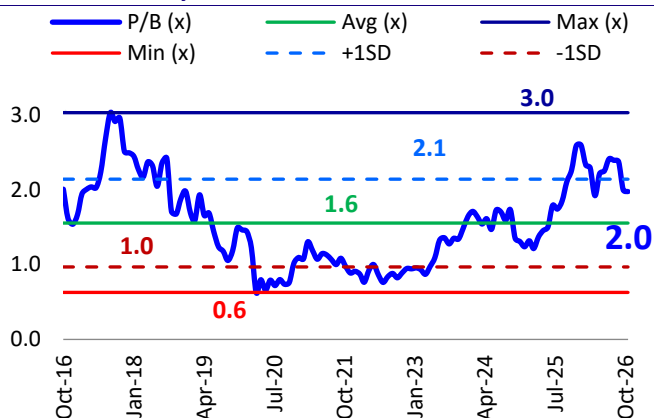


Source: MOFSL, Company

**Exhibit 10: We increase our FY27 EPS estimates by ~3% to factor in the improvement in NII**

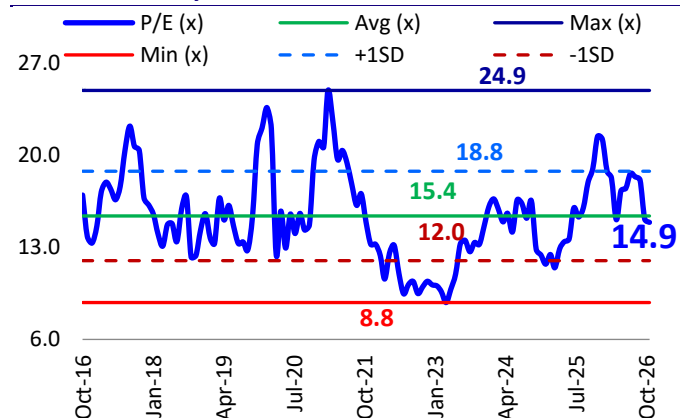
| INR b                    | Old estimates |              | New estimates |              | % change   |            |
|--------------------------|---------------|--------------|---------------|--------------|------------|------------|
|                          | FY27E         | FY28E        | FY27E         | FY28E        | FY27E      | FY28E      |
| <b>Total Income</b>      | <b>140.3</b>  | <b>166.2</b> | <b>143.7</b>  | <b>168.2</b> | <b>2.4</b> | <b>1.2</b> |
| Operating Expenses       | 53.4          | 63.2         | 55.4          | 65.1         | 3.6        | 3.1        |
| <b>Operating Profits</b> | <b>86.9</b>   | <b>103.0</b> | <b>88.4</b>   | <b>103.1</b> | <b>1.7</b> | <b>0.1</b> |
| Provisions               | 32.7          | 37.7         | 33.0          | 37.3         | 1.0        | -1.2       |
| <b>PBT</b>               | <b>54.2</b>   | <b>65.3</b>  | <b>55.3</b>   | <b>65.8</b>  | <b>2.1</b> | <b>0.8</b> |
| Tax                      | 13.6          | 16.3         | 13.8          | 16.5         | 2.1        | 0.8        |
| <b>PAT</b>               | <b>39.9</b>   | <b>47.8</b>  | <b>41.1</b>   | <b>48.7</b>  | <b>3.1</b> | <b>1.8</b> |
| Loan book                | 1,457         | 1,794        | 1,441         | 1,772        | -1.1       | -1.3       |
| Borrowings               | 1,377         | 1,690        | 1,352         | 1,665        | -1.8       | -1.5       |

**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           | FY29E           |
| Interest Income                              | 1,31,049      | 1,17,042      | 1,25,651      | 1,29,139      | 1,46,633      | 1,66,160        | 2,12,812        | 2,63,118        | 3,27,717        |
| Interest Expended                            | 71,999        | 57,494        | 57,972        | 53,772        | 59,968        | 67,201          | 83,564          | 1,07,557        | 1,36,532        |
| <b>Net Interest Income</b>                   | <b>59,049</b> | <b>59,548</b> | <b>67,679</b> | <b>75,367</b> | <b>86,665</b> | <b>98,959</b>   | <b>1,29,248</b> | <b>1,55,561</b> | <b>1,91,186</b> |
| Change (%)                                   | 3.0           | 0.8           | 13.7          | 11.4          | 15.0          | 14.2            | 30.6            | 20.4            | 22.9            |
| Other Operating Income                       | 5,732         | 6,053         | 3,569         | 6,667         | 12,610        | 12,977          | 14,110          | 12,230          | 11,277          |
| <b>Net Operating Income</b>                  | <b>64,782</b> | <b>65,601</b> | <b>71,248</b> | <b>82,034</b> | <b>99,275</b> | <b>1,11,936</b> | <b>1,43,358</b> | <b>1,67,791</b> | <b>2,02,462</b> |
| Change (%)                                   | -1.7          | 1.3           | 8.6           | 15.1          | 21.0          | 12.8            | 28.1            | 17.0            | 20.7            |
| Other Income                                 | 6,276         | 3,928         | 5,268         | 4,745         | 167           | 34              | 370             | 407             | 447             |
| <b>Net Income</b>                            | <b>71,058</b> | <b>69,529</b> | <b>76,515</b> | <b>86,779</b> | <b>99,442</b> | <b>1,11,970</b> | <b>1,43,728</b> | <b>1,68,197</b> | <b>2,02,910</b> |
| Change (%)                                   | 2.0           | -2.2          | 10.0          | 13.4          | 14.6          | 12.6            | 28.4            | 17.0            | 20.6            |
| Operating Expenses                           | 19,749        | 23,946        | 28,732        | 35,079        | 39,846        | 44,529          | 55,376          | 65,106          | 76,036          |
| <b>Operating Profits</b>                     | <b>51,309</b> | <b>45,582</b> | <b>47,783</b> | <b>51,701</b> | <b>59,597</b> | <b>67,440</b>   | <b>88,351</b>   | <b>1,03,091</b> | <b>1,26,874</b> |
| Change (%)                                   | 2.9           | -11.2         | 4.8           | 8.2           | 15.3          | 13.2            | 31.0            | 16.7            | 23.1            |
| Provisions/write offs                        | 36,357        | 30,833        | 25,404        | 21,410        | 24,684        | 27,459          | 33,002          | 37,267          | 43,696          |
| <b>PBT</b>                                   | <b>14,952</b> | <b>14,750</b> | <b>22,379</b> | <b>30,290</b> | <b>34,913</b> | <b>39,982</b>   | <b>55,349</b>   | <b>65,824</b>   | <b>83,178</b>   |
| Tax                                          | 5,463         | 4,256         | 6,464         | 7,119         | 8,478         | 10,153          | 13,837          | 16,456          | 20,795          |
| Tax Rate (%)                                 | 36.5          | 28.9          | 28.9          | 23.5          | 24.3          | 25.4            | 25.0            | 25.0            | 25.0            |
| <b>PAT (Pre-NCI)</b>                         | <b>9,489</b>  | <b>10,494</b> | <b>15,915</b> | <b>23,171</b> | <b>26,434</b> | <b>29,829</b>   | <b>41,512</b>   | <b>49,368</b>   | <b>62,384</b>   |
| Change (%)                                   | -44.2         | 10.6          | 51.7          | 45.6          | 14.1          | 12.8            | 39.2            | 18.9            | 26.4            |
| Non-controlling interest                     | 0             | 210           | 301           | -30           | -2            | 17              | 400             | 700             | 900             |
| <b>PAT to equity shareholders (post-NCI)</b> | <b>9,489</b>  | <b>10,494</b> | <b>15,915</b> | <b>23,201</b> | <b>26,437</b> | <b>29,812</b>   | <b>41,112</b>   | <b>48,668</b>   | <b>61,484</b>   |
| Change (%)                                   | -44           | 11            | 52            | 46            | 14            | 13              | 38              | 18              | 26              |
| <b>Proposed Dividend</b>                     | <b>0</b>      | <b>1,237</b>  | <b>4,959</b>  | <b>6,222</b>  | <b>6,861</b>  | <b>6,887</b>    | <b>10,278</b>   | <b>12,167</b>   | <b>15,371</b>   |

| Balance sheet            |                  |                  |                  |                  |                  |                  |                  |                  | (INR M)          |
|--------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Y/E March                | FY21             | FY22             | FY23             | FY24             | FY25             | FY26             | FY27E            | FY28E            | FY29E            |
| Equity Share Capital     | 24,695           | 24,740           | 24,797           | 24,889           | 24,949           | 25,044           | 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         | 2,89,016         | 3,27,406         | 3,76,723         |
| <b>Borrowings</b>        | <b>8,85,558</b>  | <b>8,52,012</b>  | <b>8,30,435</b>  | <b>7,65,409</b>  | <b>9,22,469</b>  | <b>10,98,877</b> | <b>13,51,668</b> | <b>16,65,361</b> | <b>20,75,230</b> |
| Change (%)               | -5.7             | -3.8             | -2.5             | -7.8             | 20.5             | 19.1             | 23.0             | 23.2             | 24.6             |
| Other liabilities        | 16,427           | 17,533           | 17,903           | 27,383           | 25,984           | 43,341           | 45,483           | 47,732           | 50,093           |
| <b>Total Liabilities</b> | <b>10,89,717</b> | <b>10,69,022</b> | <b>10,63,621</b> | <b>10,27,176</b> | <b>12,04,094</b> | <b>14,22,053</b> | <b>17,11,211</b> | <b>20,65,542</b> | <b>25,27,090</b> |
| <b>Loans</b>             | <b>8,70,303</b>  | <b>8,24,694</b>  | <b>7,51,546</b>  | <b>8,13,594</b>  | <b>9,37,731</b>  | <b>11,78,210</b> | <b>14,41,011</b> | <b>17,71,660</b> | <b>22,00,668</b> |
| Change (%)               | -4.8             | -5.2             | -8.9             | 8.3              | 15.3             | 25.6             | 22.3             | 22.9             | 24.2             |
| <b>Investments</b>       | <b>88,721</b>    | <b>1,19,169</b>  | <b>1,43,662</b>  | <b>1,23,849</b>  | <b>1,18,760</b>  | <b>1,05,638</b>  | <b>1,10,920</b>  | <b>1,16,466</b>  | <b>1,22,289</b>  |
| Change (%)               | 48.4             | 34.3             | 20.6             | -13.8            | -4.1             | -11.0            | 5.0              | 5.0              | 5.0              |
| Net Fixed Assets         | 11,621           | 5,306            | 5,573            | 5,550            | 6,860            | 13,695           | 14,380           | 15,099           | 15,854           |
| Other assets             | 1,19,071         | 1,19,852         | 1,62,841         | 84,183           | 1,40,744         | 1,24,510         | 1,44,900         | 1,62,318         | 1,88,279         |
| <b>Total Assets</b>      | <b>10,89,717</b> | <b>10,69,022</b> | <b>10,63,621</b> | <b>10,27,176</b> | <b>12,04,094</b> | <b>14,22,053</b> | <b>17,11,211</b> | <b>20,65,542</b> | <b>25,27,090</b> |

E: MOFSL Estimates

## Financials and Valuation

| AUM Mix                              |          |          |          |          |          |           | (%)       |           |           |
|--------------------------------------|----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|
| AUM Details                          | FY21     | FY22     | FY23     | FY24     | FY25     | FY26      | FY27E     | FY28E     | FY29E     |
| Asset Under Management               | 9,40,140 | 8,83,400 | 8,08,930 | 8,55,640 | 9,77,620 | 12,17,290 | 15,16,853 | 18,64,905 | 23,16,493 |
| Change (%)                           | -4.4     | -6.0     | -8.4     | 5.8      | 14.3     | 24.5      | 24.6      | 22.9      | 24.2      |
| Rural                                | 32.0     | 39.0     | 58.5     | 70.3     | 70.6     | 72.4      | 74.9      | 75.8      | 76.7      |
| Housing                              | 25.2     | 24.8     | 23.7     | 24.3     | 26.7     | 25.4      | 23.8      | 23.5      | 22.8      |
| Focused - Wholesale                  | 39.9     | 34.5     | 17.0     | 3.7      | 1.4      | 1.0       | 0.5       | 0.0       | 0.0       |
| Defocused - Wholesale                | 2.9      | 1.7      | 0.4      | 0.0      | 0.0      | 0.0       | 0.0       | 0.0       | 0.0       |
|                                      |          |          |          |          |          |           |           |           |           |
| Ratios                               |          |          |          |          |          |           | (%)       |           |           |
| Y/E March                            | FY21     | FY22     | FY23     | FY24     | FY25     | FY26      | FY27E     | FY28E     | FY29E     |
| Spreads Analysis (%)                 |          |          |          |          |          |           |           |           |           |
| Avg. Yield on Loans                  | 14.7     | 13.8     | 15.9     | 16.5     | 16.7     | 15.7      | 16.3      | 16.4      | 16.5      |
| Avg. Cost-Int. Bear. Liab.           | 7.9      | 6.6      | 6.9      | 6.7      | 7.1      | 6.6       | 6.8       | 7.1       | 7.3       |
| Loan Spreads                         | 6.8      | 7.2      | 9.1      | 9.8      | 9.6      | 9.1       | 9.4       | 9.3       | 9.2       |
| NIM on loans                         | 6.6      | 7.0      | 8.6      | 9.6      | 9.9      | 9.4       | 9.9       | 9.7       | 9.6       |
|                                      |          |          |          |          |          |           |           |           |           |
| Profitability Ratios (%)             |          |          |          |          |          |           |           |           |           |
| Int. Expended/Int.Earned             | 54.9     | 49.1     | 46.1     | 41.6     | 40.9     | 40.4      | 39.3      | 40.9      | 41.7      |
| Other Inc./Net Income                | 16.9     | 14.4     | 11.5     | 13.2     | 12.8     | 11.6      | 10.1      | 7.5       | 5.8       |
| Op. Exps./Net Income                 | 27.8     | 34.4     | 37.6     | 40.4     | 40.1     | 39.8      | 38.5      | 38.7      | 37.5      |
| Empl. Cost/Op. Exps.                 | 51.0     | 47.5     | 49.1     | 51.5     | 55.6     | 55.8      | 54.3      | 54.5      | 55.0      |
| Provisions/PPoP (%)                  | 70.9     | 67.6     | 53.2     | 41.4     | 41.4     | 40.7      | 37.4      | 36.1      | 34.4      |
|                                      |          |          |          |          |          |           |           |           |           |
| Asset Quality (%)                    |          |          |          |          |          |           |           |           |           |
| Gross NPAs                           | 45,040   | 35,430   | 38,320   | 26,980   | 32,180   | 35,110    | 42,949    | 50,852    | 61,802    |
| Gross NPAs to Adv.                   | 5.0      | 4.2      | 4.7      | 3.2      | 3.3      | 2.9       | 2.9       | 2.8       | 2.7       |
| Net NPAs                             | 13,770   | 16,780   | 11,780   | 6,610    | 9,290    | 11,480    | 10,143    | 12,013    | 14,580    |
| Net NPAs to Adv.                     | 1.6      | 2.0      | 1.5      | 0.8      | 1.0      | 1.0       | 0.7       | 0.7       | 0.7       |
| PCR (%)                              | 69.4     | 52.6     | 69.3     | 75.5     | 71.1     | 67.3      | 76.4      | 76.4      | 76.4      |
| ECL/EAD (%)                          |          |          |          |          |          |           |           |           |           |
|                                      |          |          |          |          |          |           |           |           |           |
| Return ratios and Capitalisation (%) |          |          |          |          |          |           |           |           |           |
| RoE                                  | 5.7      | 5.4      | 7.7      | 10.3     | 10.8     | 11.1      | 13.8      | 14.6      | 16.3      |
| RoA                                  | 0.9      | 1.0      | 1.5      | 2.2      | 2.4      | 2.3       | 2.6       | 2.6       | 2.7       |
| Debt to Equity (x)                   | 4.7      | 4.3      | 3.9      | 3.3      | 3.6      | 3.9       | 4.3       | 4.7       | 5.2       |
| Average Assets/Equity (x)            | 6.5      | 5.6      | 5.1      | 4.6      | 4.6      | 4.9       | 5.3       | 5.7       | 6.1       |
|                                      |          |          |          |          |          |           |           |           |           |
| VALUATION                            | FY21     | FY22     | FY23     | FY24     | FY25     | FY26      | FY27E     | FY28E     | FY29E     |
| Book Value (INR)                     | 76.0     | 80.6     | 86.8     | 94.2     | 102.5    | 111.7     | 125.4     | 140.7     | 160.4     |
| Price-BV (x)                         | 3.3      | 3.2      | 2.9      | 2.7      | 2.5      | 2.3       | 2.0       | 1.8       | 1.6       |
| EPS (INR)                            | 3.8      | 4.2      | 6.4      | 9.3      | 10.6     | 11.9      | 16.4      | 19.4      | 24.6      |
| EPS Growth YoY                       | -54.7    | 10.4     | 51.3     | 45.2     | 13.7     | 12.3      | 37.9      | 18.4      | 26.3      |
| Price-Earnings (x)                   | 66.1     | 59.9     | 39.6     | 27.2     | 24.0     | 21.3      | 15.5      | 13.1      | 10.3      |
| Dividend per share (INR)             | 0.0      | 0.5      | 2.0      | 2.5      | 2.8      | 2.8       | 4.1       | 4.9       | 6.1       |
| Dividend yield (%)                   | 0.0      | 0.2      | 0.8      | 1.0      | 1.1      | 1.1       | 1.6       | 1.9       | 2.4       |
| E: MOSL Estimates                    |          |          |          |          |          |           |           |           |           |

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| Explanation of Investment Rating |                                                                                              |
|----------------------------------|----------------------------------------------------------------------------------------------|
| Investment Rating                | Expected return (over 12-month)                                                              |
| BUY                              | $\geq 15\%$                                                                                  |
| SELL                             | $< -10\%$                                                                                    |
| NEUTRAL                          | $< -10\%$ to $15\%$                                                                          |
| UNDER REVIEW                     | Rating may undergo a change                                                                  |
| NOT RATED                        | We have forward looking estimates for the stock but we refrain from assigning recommendation |

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