

Transforming digitally; valuations inexpensive - Upgrade to BUY

We attended L&T Finance's (LTF) digital investor day where the management articulated its digital transformation journey and its way forward to drive stringent operations and stabilize credit quality led by Project Cyclops, an AI-driven, multi-dimensional underwriting engine. The company has made significant efforts to improve its credit underwriting practices across different product lines and has created an omni-channel digital architecture to support steady growth. We remain circumspect on MFI exposure for LTF (30% MFI book exposure) though it is relatively well placed given the company had been tightening its belt well in advance and it has exposure of only 5% (INR 12.5bn) of its MFI book to customers with high leverage (≥ 4 associations). LTF also maintains additional macro-prudential provisions of INR 9.7bn on its MFI book (~3.7% of total MFI loans) which insulates from any future shocks. LTF has assigned a fresh sourcing vertical with a team of 500+ members to acquire lower leveraged customers which would ensure continued and healthy growth in the segment. We believe the recent correction of ~16% in last 3 months led by issues across MFI industry offers significant upside from here. The current valuations of 1.2x FY26E P/B are relatively inexpensive in return for RoAs/RoEs of 2.7%/13.4%. We upgrade the stock to BUY with a TP of INR 180, assigning a target multiple of 1.6x FY26E BVPS.

- Strong aspirations from digital initiatives:** LTF demonstrated Project Cyclops, an AI-ML based in-house credit intelligence tool, which is gradually being integrated into various lines of businesses. The company highlighted multiple applications of Cyclops via different use cases and alluded on how the company underwrites and processes these loans digitally. Project Cyclops is being implemented for 2W and farm equipment segments (Exhibit 1-5) and is expected to be completed by Jan'24. It will be launched for PL segment by FY25 end. The company has spent a total of INR 1.25bn in FY24 and expects INR 1.75bn opex in FY25 on Project Cyclops (total of ~0.4% of AUM). On the asset quality side, company is working on early warning signals to detect possible defaults on time. It is an emerging stress simulation system named Nostradamus (Exhibit 8) which will also be used to quantify the risk associated with every proposal. The company had launched PLANET app in FY22 (D2C platform) which has aided in strong growth in its retail business and it has launched 2 versions of the app since then. It plans to launch PLANET3.0 (Exhibit 9-11) in near term with a completely revived backend system. This tech integration has lowered the avg sanction TAT meaningfully for the company from 15min or days to just 15-30 seconds. With AI and Gen AI (Exhibit 6-7) introduction to the product lines via Cyclops, we believe that this also opens up opportunities for the company to lend to informal customers with taking multiple parameters into consideration and within a short period of time.
- Relatively well placed in MFI segment (accounting for ~30% of total book):** LTF moderated disbursements to few states basis collection thresholds which led total disbursements to decline from INR 19.2bn in Jul'24 to INR 14.9bn in Oct'24. As of Oct'24, LTF had ~8% of its customers with more than three lenders and ~5% of customer with over four lenders. ~0.3% of customers had more than six lenders (down

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	HOLD
Current Price Target (12M)	180
Upside/(Downside)	28.0%
Previous Price Target	200
Change	-10.0%

Key Data – LTF IN

Current Market Price	INR141
Market cap (bn)	INR350.7/US\$4.2
Free Float	30%
Shares in issue (mn)	2,488.9
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,548.0/US\$18.4
52-week range	194/134
Sensex/Nifty	80,004/24,195
INR/US\$	84.3

Price Performance

%	1M	6M	12M
Absolute	0.2	-10.9	0.5
Relative*	-0.5	-16.0	-17.1

* To the BSE Sensex

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

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

Financial Summary

(INR mn)

Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Profit	10,701	16,233	23,201	27,160	35,991
Net Profit (YoY) (%)	10.2%	51.7%	42.9%	17.1%	32.5%
Assets (YoY) (%)	-1.9%	-0.5%	-3.4%	17.4%	18.0%
ROA (%)	1.0%	1.5%	2.2%	2.4%	2.7%
ROE (%)	5.5%	7.8%	10.3%	11.1%	13.4%
EPS	4.3	6.5	9.3	10.9	14.5
EPS (YoY) (%)	10.0%	51.3%	42.4%	17.1%	32.5%
P/E (x)	32.6	21.5	15.1	12.9	9.8
BV	81	87	94	102	113
BV (YoY) (%)	6.1%	7.7%	8.5%	8.7%	10.6%
P/BV (x)	1.75	1.62	1.50	1.38	1.25

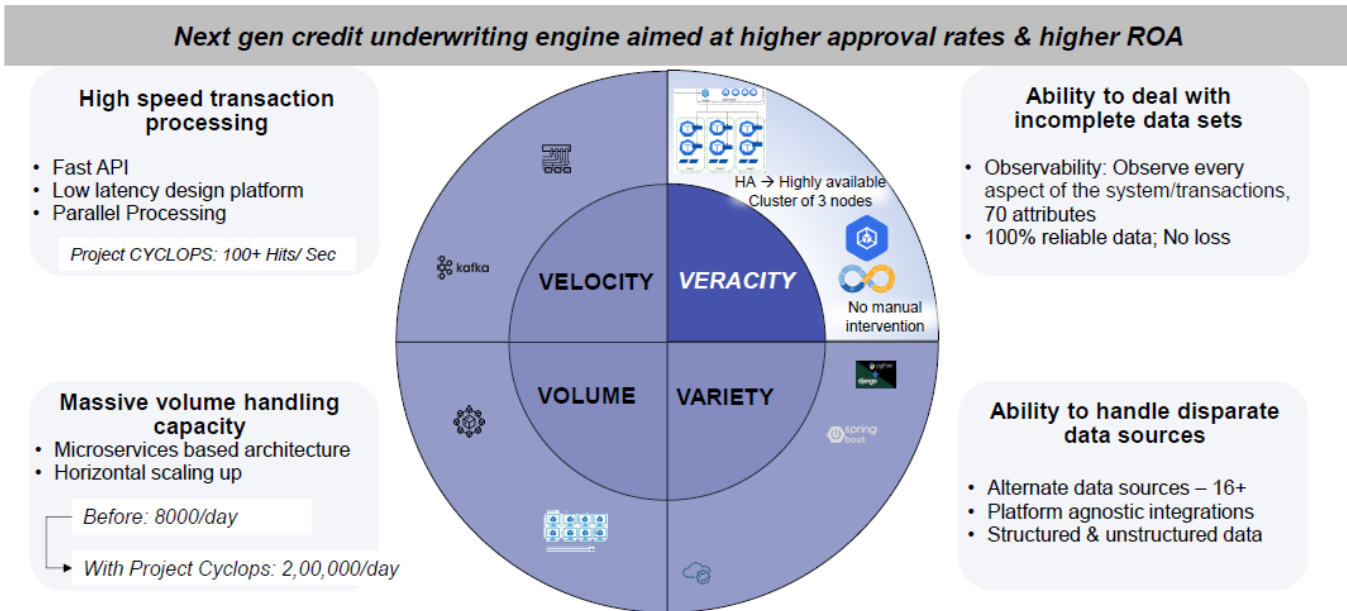
Source: Company data, JM Financial. Note: Valuations as of 26/Nov/2024

from 0.5% in Jun'24). ~69% of the total MFI book is either "only LTF" customers or "LTF+1" customer which provides confidence on the product segment of the company. LTF has assigned a dedicated fresh sourcing vertical with a team of 500+ members to acquire lower leveraged customers which would ensure continued and healthy growth in the segment. It is evaluating new geographies like Maharashtra, Tamil Nadu, Andhra Pradesh and Uttar Pradesh where the customer leverage is low. Despite the stress in the system, collection efficiencies for the company has not been meaningfully affected as it stood at 99.3% in Oct'24 vs 99.4% in Sep'24. This shows resilience in the asset quality of the company's MFI book and thus builds confidence on the credit underwriting practices. LTF has also rationalized field-officers APC from 540 to 490 to optimize span of control and improve monitoring. Management guides for credit cost to go up to 3.5-3.7% for FY25E on the back of emerging stress in the space, however, the additional management overlay of INR 9.7bn is expected to limit its credit costs to certain extent.

- **Management guidance remains intact:** Management targets sustainable RoAs of 2.8-3% going forward in line with Lakshya 2026 goals despite NIMs pressure and MFI stress. LTF aspires to double its loan book in next 3-4 years with 10.75-11% NIMs+Fees and 2-2.25% steady state credit costs. Management aims to keep opex+credit costs in the range of ~7% despite new branch rollouts, marketing campaigns and new product launches.
- **Valuations and view:** We expect a) a steady growth at 24% AUM CAGR over FY24-26E, b) slight moderation in NIMs coming in from slower MFI disbursements and higher secured mix and c) strategic investments in IT and branch expansion for FY24-26E. We believe that the current valuations of 1.2x FY26E P/B are relatively inexpensive in return for RoAs/RoEs of 2.7%/13.4%. We upgrade the stock to BUY with a TP of INR 180, maintaining the target multiple of 1.6x FY26E BVPS.

Project Cyclops

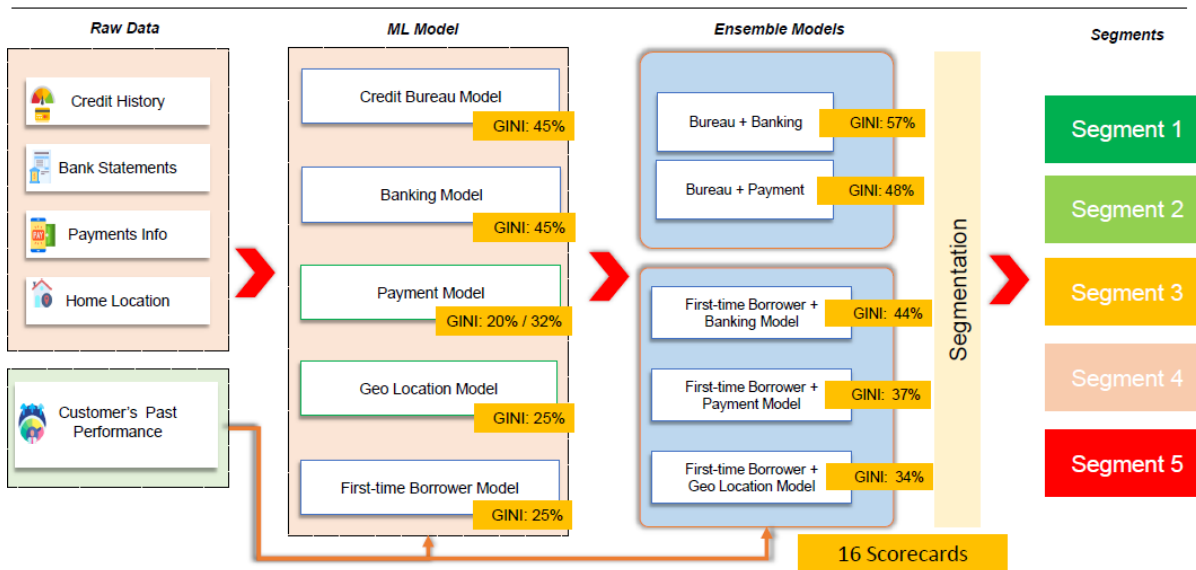
Exhibit 1. Project Cyclops – credit underwriting engine to optimize operations



Source: Company, JM Financial

Exhibit 2. Project Cyclops on 2W loans – Using AI to segmentalize customers into risk categories

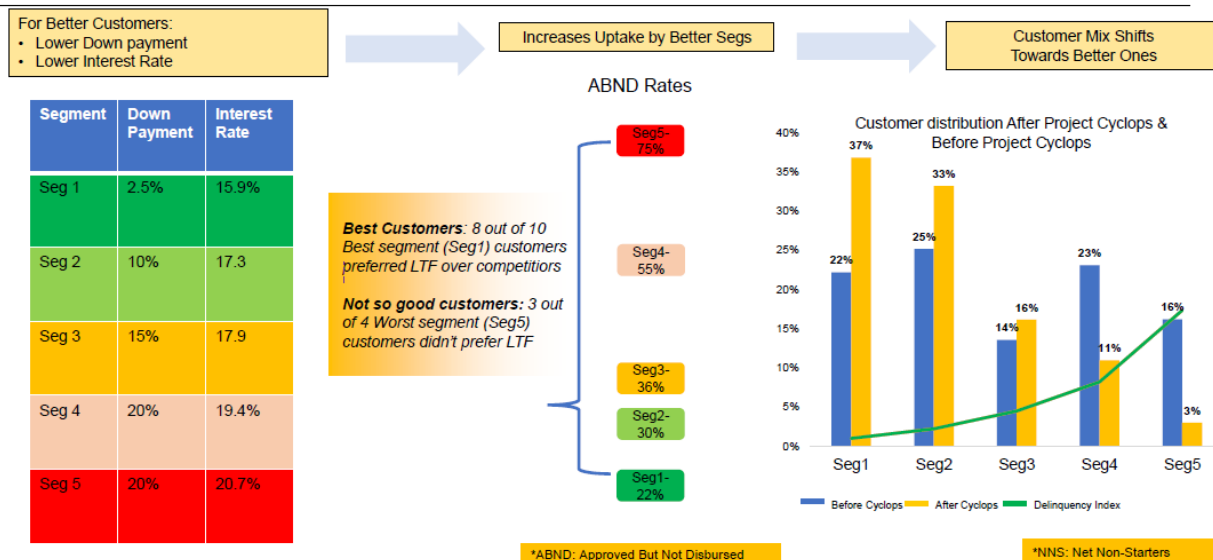
TW Project Cyclops: Under the Hood



Source: Company, JM Financial

Exhibit 3. Project Cyclops on 2W loans – Leads LTF to on-board relatively better risk profile customers

TW Project Cyclops Shifts the Customer Mix



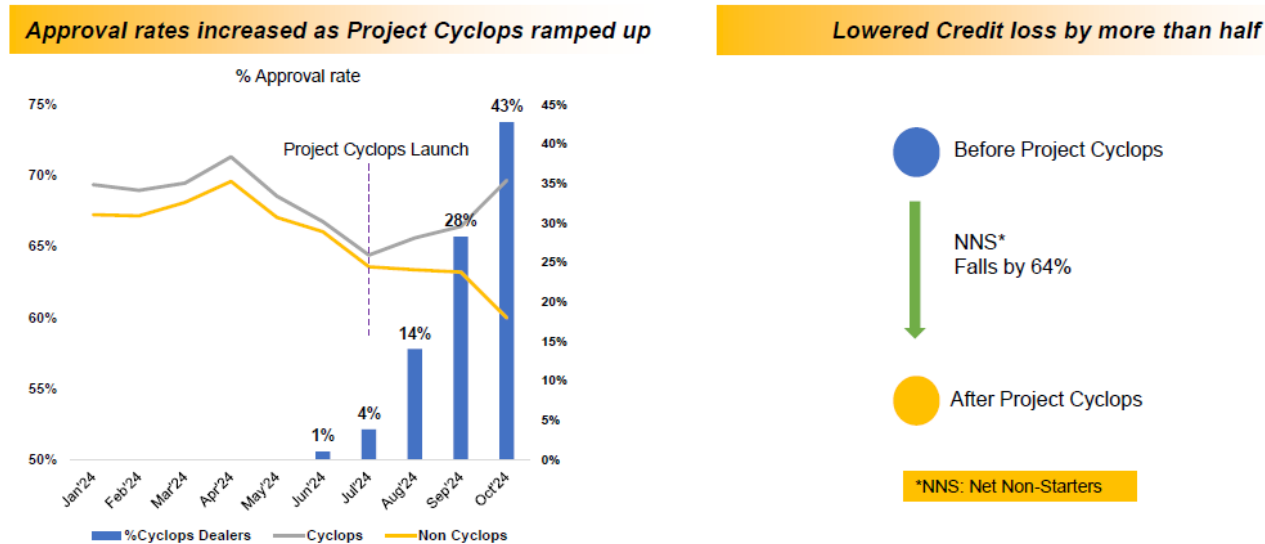
*ABND: Approved But Not Disbursed

*NNS: Net Non-Starters

Source: Company, JM Financial

Exhibit 4. Project Cyclops on 2W loans – Huge improvement in asset quality post Cyclops implementation

Approval Rates Increase while Lowering Delinquency



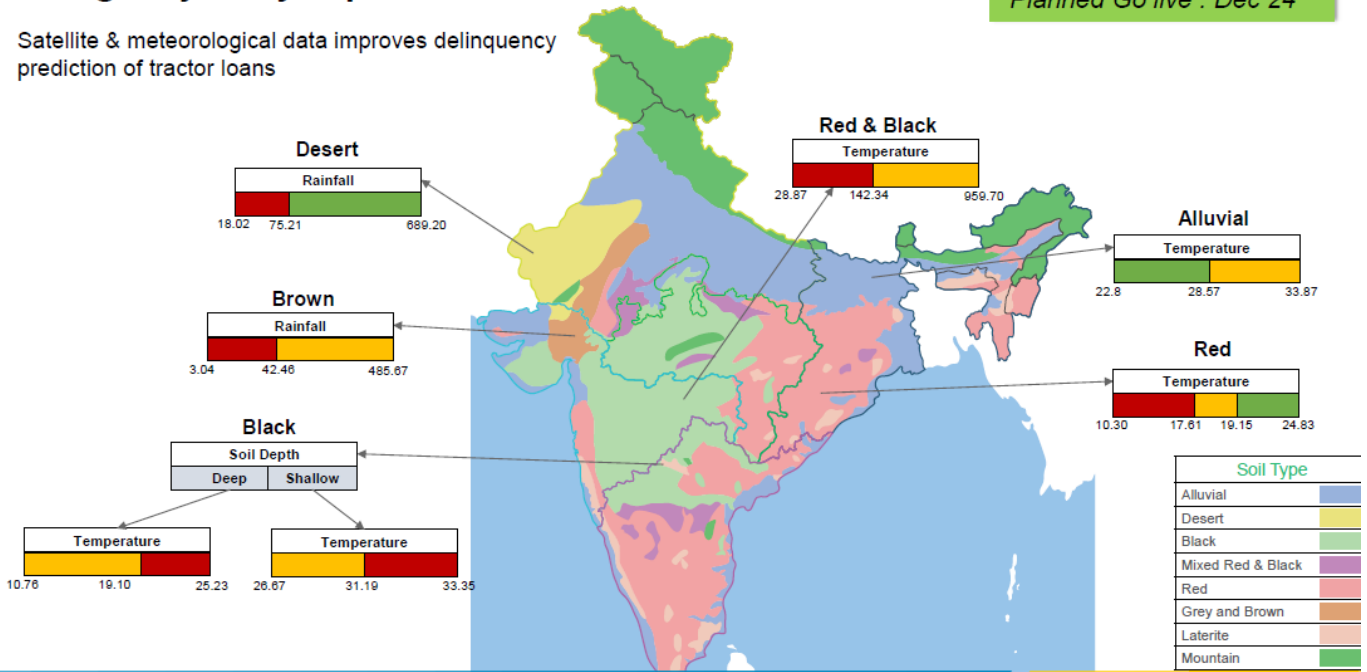
Source: Company, JM Financial

Exhibit 5. Project Cyclops on farmers – Using AI for Soil testing to analyse cash flow of the customers

Taking Project Cyclops to the Farm

Planned Go live : Dec 24

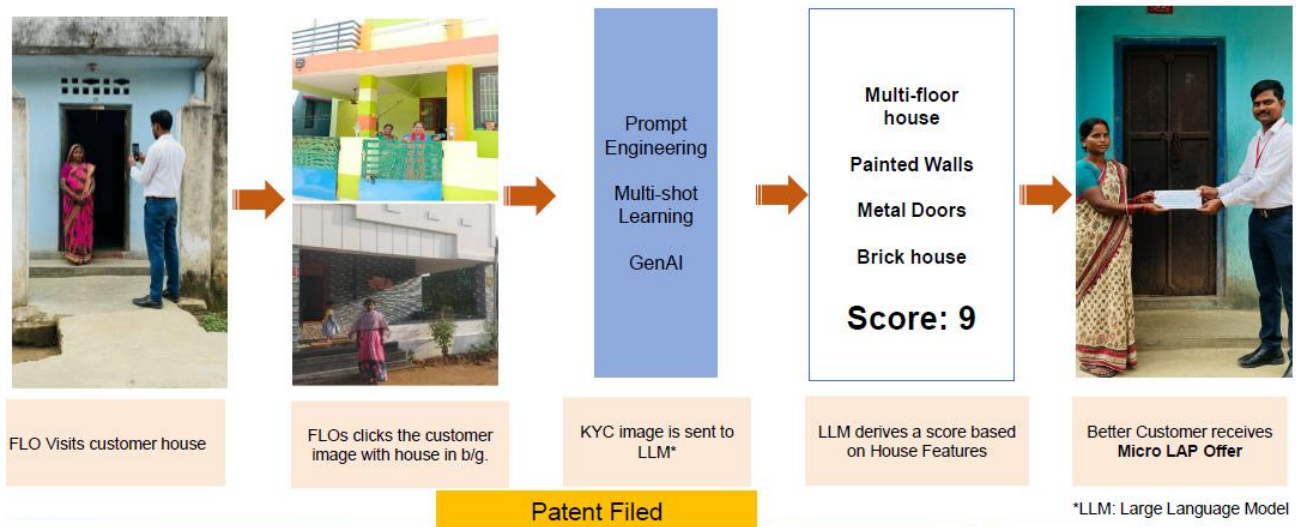
Satellite & meteorological data improves delinquency prediction of tractor loans



Source: Company, JM Financial

Exhibit 6. Using Gen AI to offer LAP to MFI customers

GenAI on Unstructured Data: LAP to MFI customers



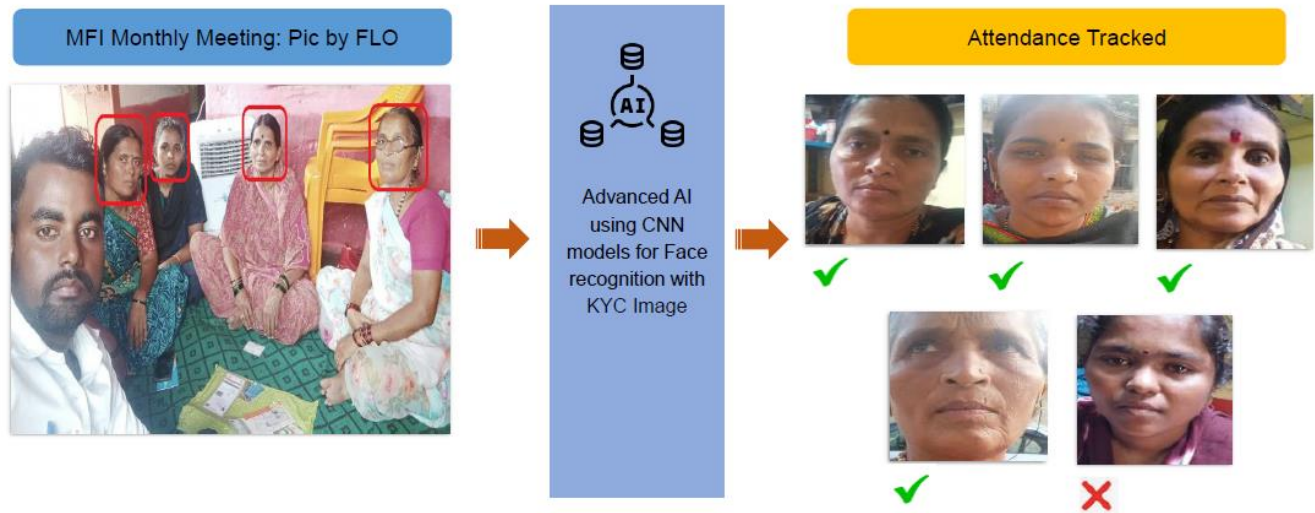
*LLM: Large Language Model

Source: Company, JM Financial

Exhibit 7. Using Gen AI for facial recognition and group attendance

MFI – GenAI based Auto Attendance

When MFI customers attend monthly meetings, better loan repayment follows

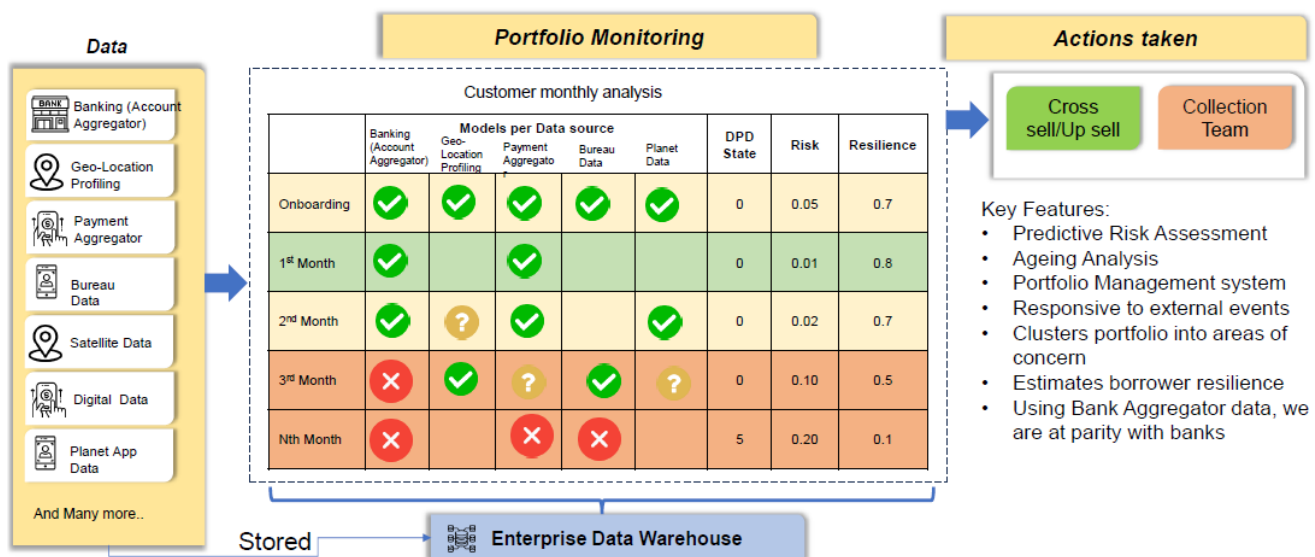


Source: Company, JM Financial

Exhibit 8. Project Nostradamus: Automated risk management system

Nostradamus: Automated Risk Management System

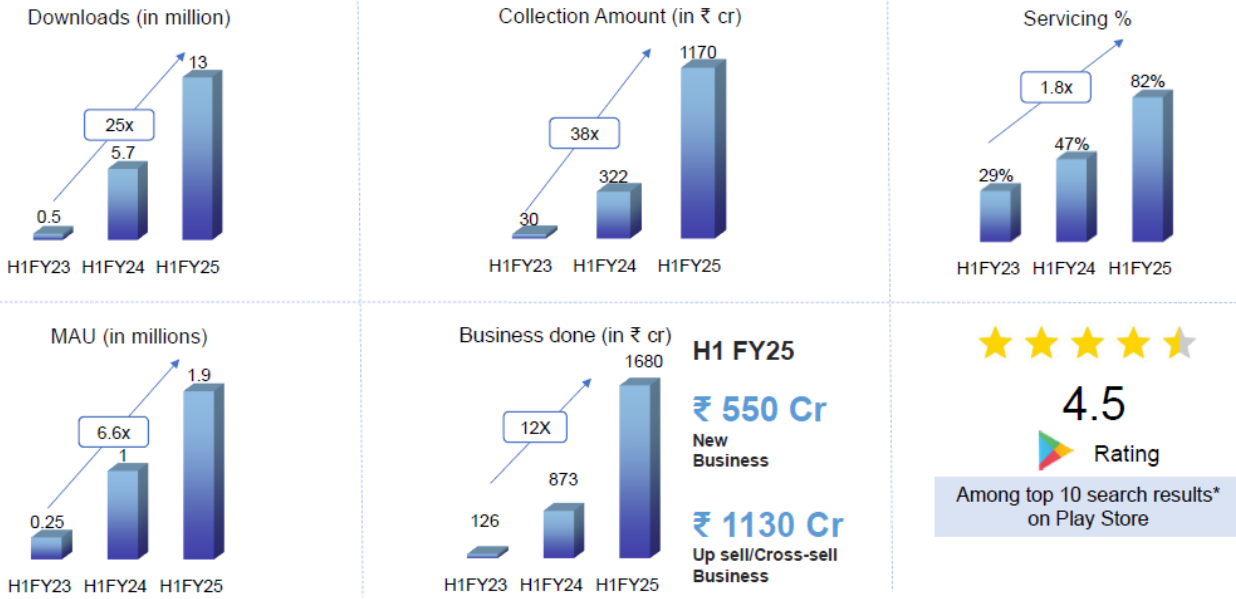
GO LIVE : Q2FY26



Source: Company, JM Financial

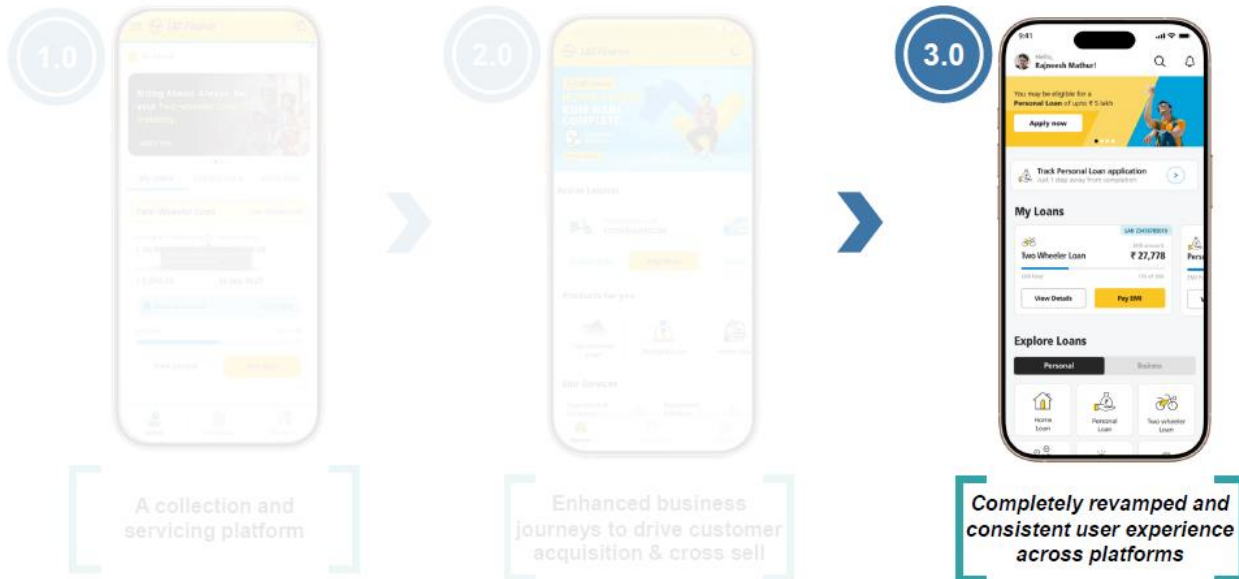
PLANET App

Exhibit 9. PLANET App – Strong subscription from customers



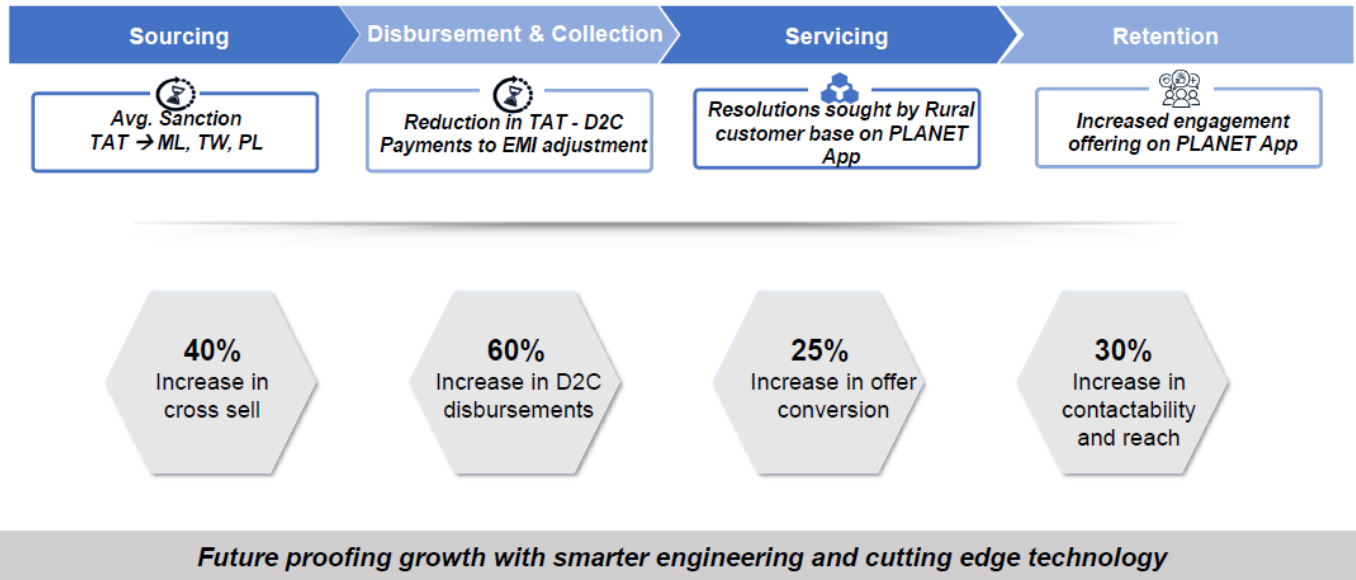
Source: Company, JM Financial

Exhibit 10. PLANET App – Evolution of D2C app; to launch PLANET 3.0 soon



Source: Company, JM Financial

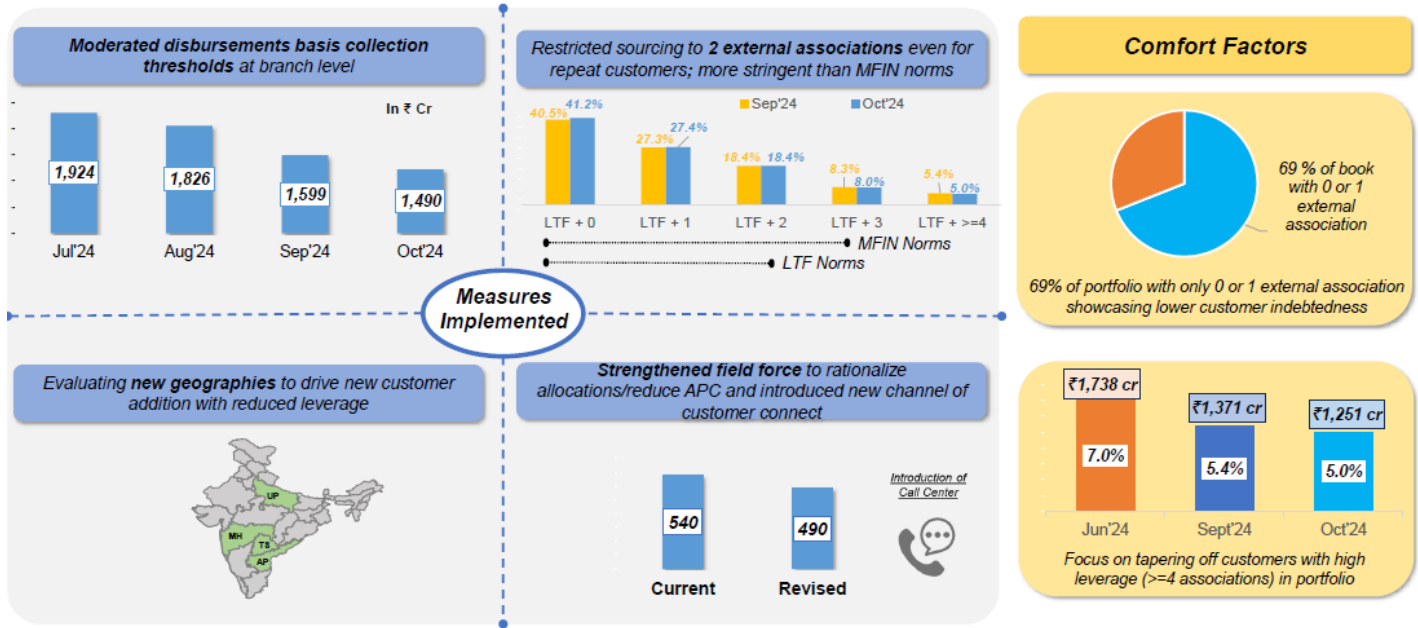
Exhibit 11. PLANET App – From sourcing to retention; strong contributor



Source: Company, JM Financial

MFI Update

Exhibit 12. Measures implemented by the company in light of MFN guardrails



Source: Company, JM Financial

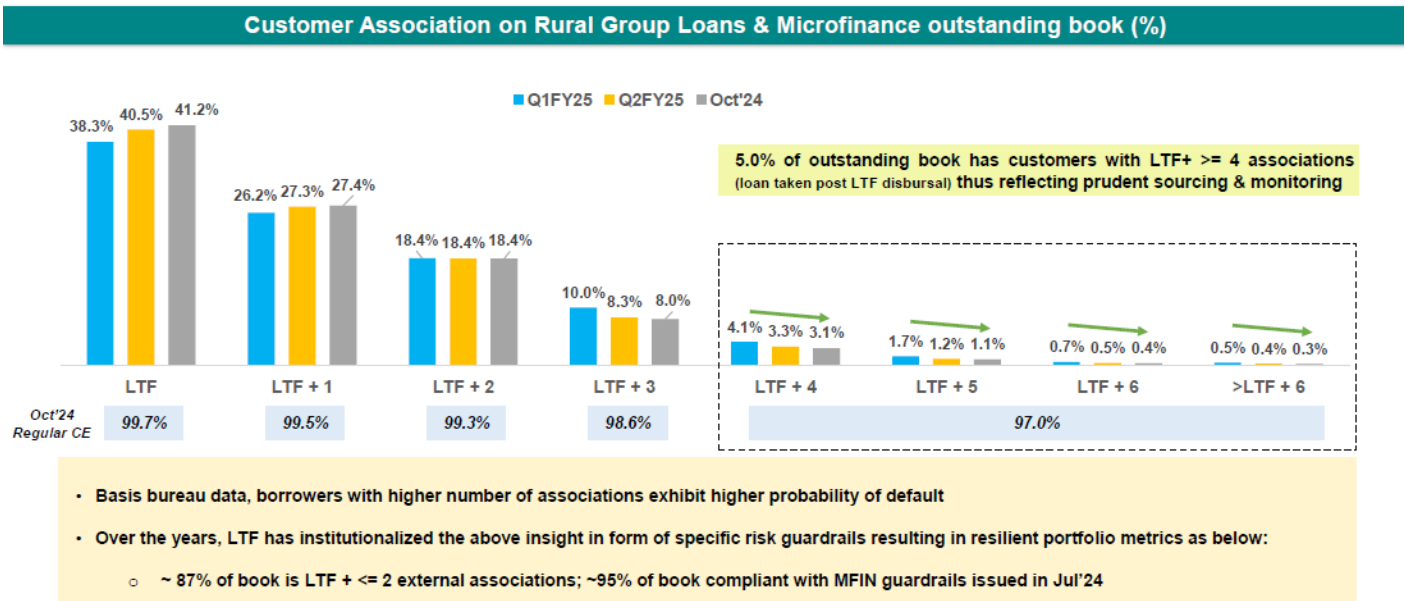
Exhibit 13. Implemented conservative norms with focus to on-board lower leveraged customers

Association wise customer composition at sourcing						
Association	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY'25	Q2 FY25	Oct'24
Only LTF	47%	48%	50%	48%	49%	53%
LTF + 1	28%	28%	28%	32%	31%	30%
LTF + 2	19%	19%	17%	19%	20%	17%
LTF + 3	6%	5%	5%	1%	0%	0%
Total	100%	100%	100%	100%	100%	100%

Strong credit guardrails reflecting in stringent association, exposure and DPD norms; aided by dedicated Fresh sourcing vertical (500+ team) to acquire lower leveraged customers

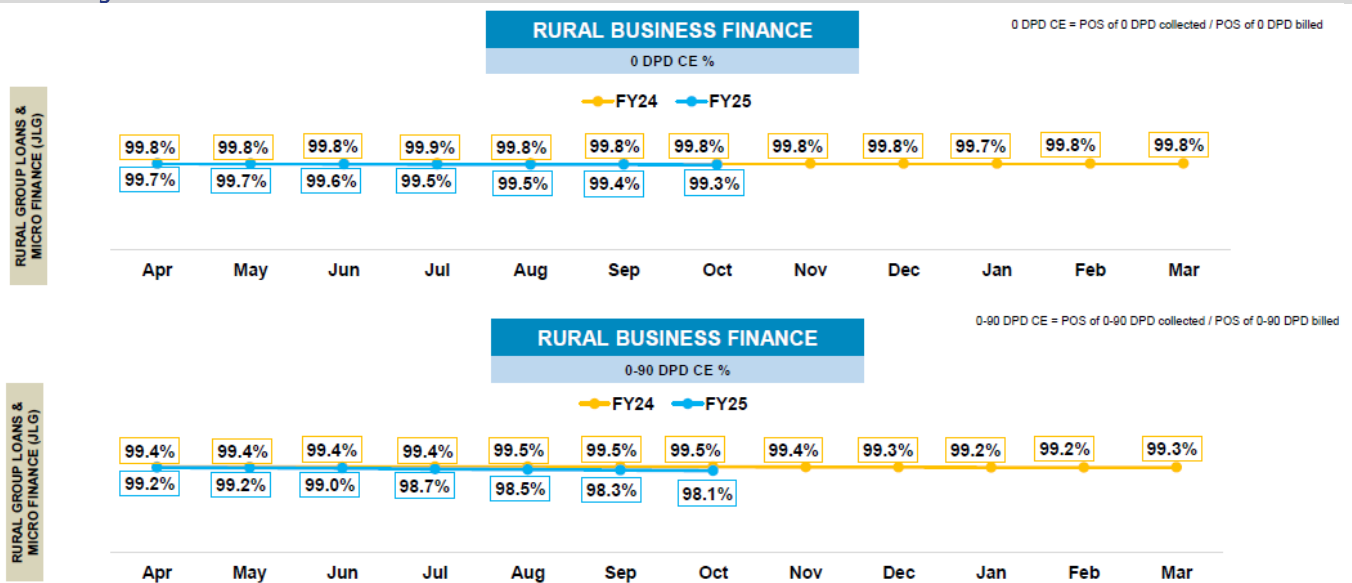
Source: Company, JM Financial

Exhibit 14. 5% MFI exposure to LTF+4 customers



Source: Company, JM Financial

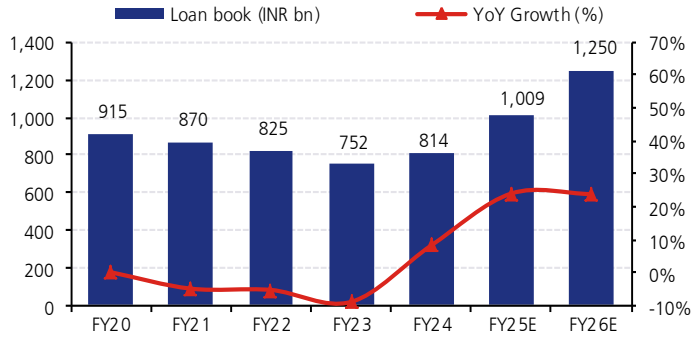
Exhibit 15. Marginal decline in collection efficiencies



Source: Company, JM Financial

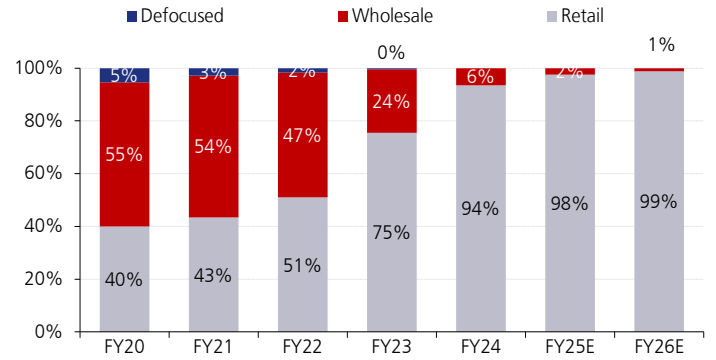
LTFH – Annual trends

Exhibit 11. LTF: Trend in AUM (INR bn)



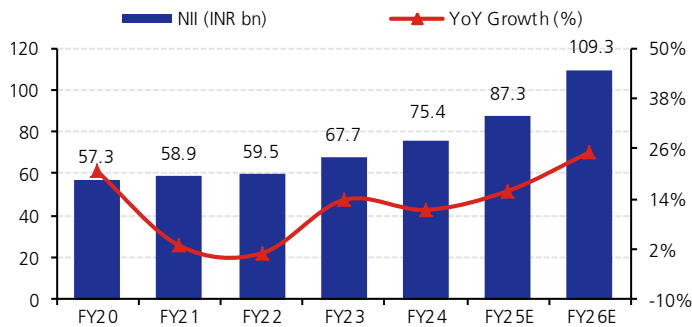
Source: Company, JM Financial

Exhibit 12. LTF: Trend in AUM Mix



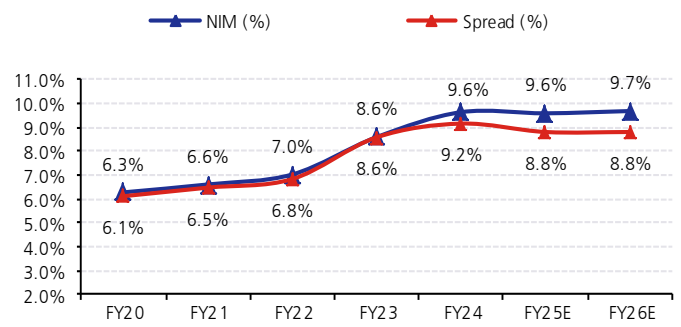
Source: Company, JM Financial

Exhibit 13. LTF: Trends in NII



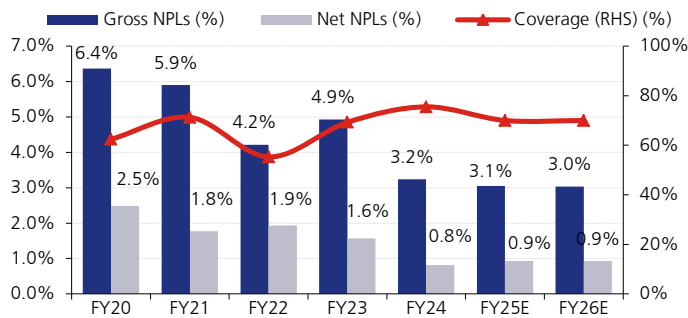
Source: Company, JM Financial

Exhibit 14. LTF: Trends in margins



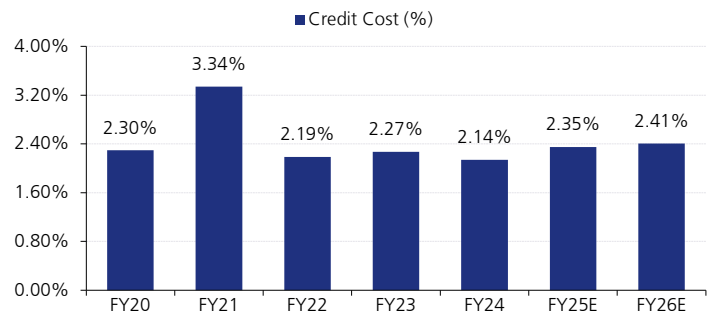
Source: Company, JM Financial

Exhibit 15. LTF: Trend in asset quality



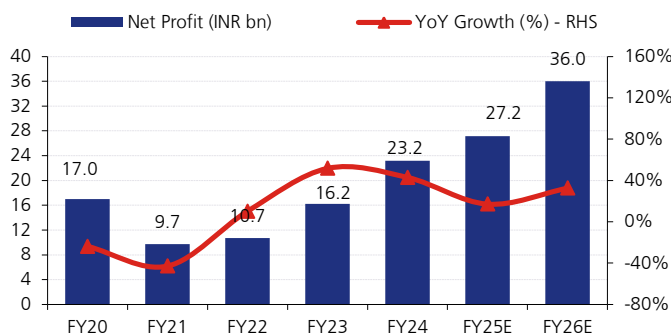
Source: Company, JM Financial

Exhibit 16. LTF: Trend in credit costs



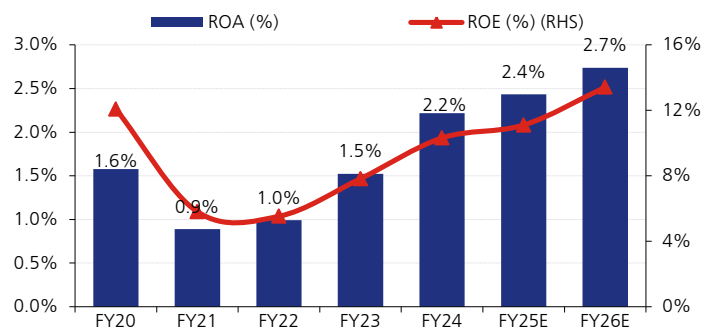
Source: Company, JM Financial

Exhibit 17. LTF: Trend in earning growth



Source: Company, JM Financial

Exhibit 18. LTF: Trend in return ratios



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Interest Income (NII)	59,504	67,679	75,367	87,341	1,09,334
Non Interest Income	-4,697	1,161	7,802	9,939	10,883
Total Income	54,807	68,839	83,170	97,280	1,20,217
Operating Expenses	22,636	28,334	35,079	38,572	46,708
Pre-provisioning Profits	32,170	40,505	48,091	58,708	73,510
Loan-Loss Provisions	20,997	15,595	13,164	17,857	23,951
Others Provisions	-1,056	3,604	4,637	4,637	4,637
Total Provisions	19,942	19,199	17,801	22,494	28,589
PBT	12,229	21,307	30,290	36,213	44,921
Tax	3,736	6,463	7,119	9,053	8,930
PAT (Pre-Extra ordinaries)	8,492	14,843	23,171	27,160	35,991
Extra ordinaries (Net of Tax)	2,209	1,389	30	0	0
Reported Profits	10,701	16,233	23,201	27,160	35,991
Dividend	1,237	4,966	6,222	6,790	8,998
Retained Profits	9,464	11,266	16,979	20,370	26,993

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Equity Capital	24,740	24,797	24,889	24,889	24,889
Reserves & Surplus	1,74,737	1,90,487	2,09,495	2,29,865	2,56,858
Stock option outstanding	0	0	0	0	0
Borrowed Funds	8,52,012	8,30,435	7,65,409	9,18,490	11,02,189
Deferred tax liabilities	218	233	237	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	17,314	17,670	27,145	32,395	38,695
Total Liabilities	10,69,022	10,63,621	10,27,176	12,05,640	14,22,631
Net Advances	8,24,694	7,51,546	8,13,594	10,09,196	12,50,131
Investments	1,19,169	1,43,662	1,23,849	1,05,272	89,481
Cash & Bank Balances	79,704	1,27,489	46,760	42,084	37,876
Loans and Advances	637	1,312	2,505	2,630	2,762
Other Current Assets	18,239	7,797	13,431	18,880	14,208
Fixed Assets	4,012	5,248	5,416	5,957	6,553
Miscellaneous Expenditure	8,120	7,927	3,051	3,051	3,051
Deferred Tax Assets	14,446	18,641	18,570	18,570	18,570
Total Assets	10,69,022	10,63,621	10,27,176	12,05,640	14,22,631

Source: Company, JM Financial

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Growth (YoY) (%)					
Borrowed funds	-3.8%	-2.5%	-7.8%	20.0%	20.0%
Advances	-5.2%	-8.9%	8.3%	24.0%	23.9%
Total Assets	-1.9%	-0.5%	-3.4%	17.4%	18.0%
NII	1.0%	13.7%	11.4%	15.9%	25.2%
Non-interest Income	-306.0%	-124.7%	572.3%	27.4%	9.5%
Operating Expenses	21.1%	25.2%	23.8%	10.0%	21.1%
Operating Profits	-24.3%	25.9%	18.7%	22.1%	25.2%
Core Operating profit	-10.5%	25.6%	20.8%	17.0%	23.6%
Provisions	-38.0%	-3.7%	-7.3%	26.4%	27.1%
Reported PAT	10.2%	51.7%	42.9%	17.1%	32.5%
Yields / Margins (%)					
Interest Spread	6.83%	8.58%	9.15%	8.80%	8.80%
NIM	7.02%	8.59%	9.63%	9.58%	9.68%
Profitability (%)					
ROA	0.99%	1.52%	2.22%	2.43%	2.74%
ROE	5.5%	7.8%	10.3%	11.1%	13.4%
Cost to Income	41.3%	41.2%	42.2%	39.7%	38.9%
Asset quality (%)					
Gross NPA	4.21%	4.92%	3.24%	3.05%	3.03%
LLP	1.85%	1.80%	1.70%	2.01%	2.18%
Capital Adequacy (%)					
Tier I	19.70%	22.10%	21.02%	22.61%	21.06%
CAR	22.90%	24.52%	22.84%	24.24%	22.65%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
NII / Assets	5.51%	6.35%	7.21%	7.82%	8.32%
Other Income / Assets	-0.44%	0.11%	0.75%	0.89%	0.83%
Total Income / Assets	5.08%	6.46%	7.96%	8.71%	9.15%
Cost / Assets	2.10%	2.66%	3.36%	3.45%	3.55%
PPP / Assets	2.98%	3.80%	4.60%	5.26%	5.59%
Provisions / Assets	1.85%	1.80%	1.70%	2.01%	2.18%
PBT / Assets	1.13%	2.00%	2.90%	3.24%	3.42%
Tax rate	30.6%	30.3%	23.5%	25.0%	25.0%
ROA	0.99%	1.52%	2.22%	2.43%	2.74%
Leverage	5.4	4.9	4.4	4.7	5.0
ROE	5.5%	7.8%	10.3%	11.1%	13.4%

Source: Company, JM Financial

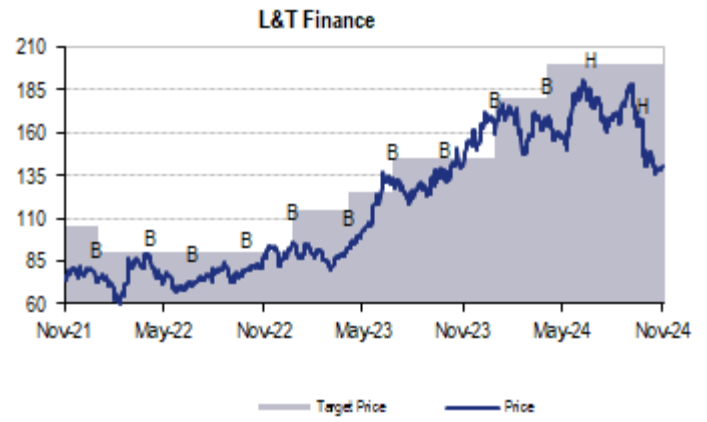
Valuations					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shares in Issue	2,474.0	2,479.7	2,488.9	2,488.9	2,488.9
EPS (INR)	4.3	6.5	9.3	10.9	14.5
EPS (YoY) (%)	10.0%	51.3%	42.4%	17.1%	32.5%
P/E (x)	32.6	21.5	15.1	12.9	9.8
BV (INR)	81	87	94	102	113
BV (YoY) (%)	6.1%	7.7%	8.5%	8.7%	10.6%
P/BV (x)	1.75	1.62	1.50	1.38	1.25
DPS (INR)	0.5	2.0	2.5	2.7	3.6
Div. yield (%)	0.4%	1.4%	1.8%	1.9%	2.6%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
20-Jan-20	Buy	140	
20-Jul-20	Buy	72	-48.6
24-Oct-20	Buy	74	2.8
18-Jan-21	Buy	110	48.6
2-May-21	Buy	105	-4.5
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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610

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

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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