

L&T Finance | BUY

Steady Quarter

L&T Finance (LTF) reported a steady quarter, with PAT beat of +4% on our estimates increasing (+2%/+10% YoY/QoQ), leading to RoA of ~2.4% (+15bps QoQ). Credit costs, improved sequentially to 2.2% (-28bps QoQ) and the company utilized further INR 3bn macro-prudential provisions. Adjusting for this utilized overlay, credit costs would have been 3.4% (vs 3.8% in Q4). GS3/NS3 was steady at 3.3%/1% (both +2bps QoQ). Margins (reported) improved +9bps QoQ led by -16bps QoQ decline in CoFs and -8bps QoQ decline in yields. NIM+Fees stood strong at ~10.2% (+7bps QoQ) vs management guidance of 10-10.5%. Gross loans grew (+15%/5% YoY/QoQ) led by strong disbursements of INR 175bn (+17% YoY/QoQ). Company also acquired gold loan business of worth INR 13.6bn from Paul Merchants Finance. Current quarterly performance has been steady with moderating credit cost and improved growth visibility given its partnerships with Amazon and Phonepe. Its project Cyclops also offers significant support to the business in terms of underwriting. We maintain BUY with a revised TP of INR 240 (valuing at 1.9x FY27E BVPS).

- **Growth pick up led by gold book acquisition:** Disbursements growth during the quarter was strong at (+17% YoY/QoQ both) majorly led by pick up in LAP (+35% QoQ), farm equipment (+25% QoQ), 2W (+15% QoQ), rural business loan (+10% QoQ) and HL (+13% QoQ) segments. On the other hand, the company acquired Paul Merchants Finance's gold loans business which led to incremental disbursements of INR 15.3bn. As a result, overall growth came in strong at +5% QoQ, +15% YoY. Within the retail book, growth was driven by LAP (+10% QoQ), Personal loans (+8% QoQ), SME finance (+7% QoQ) and home loans (+5% QoQ). In addition, it acquired gold loans book of INR 1.3bn from Paul Merchants Finance. Company aims to add 175 more branches in gold loans (currently at 130 branches) which will also cross-sell microLAP, SME and PL. Wholesale book contracted -3% QoQ leading to total retail composition of 98% of total book. We build in gross loan growth of ~15% CAGR over FY25-27E (~17% CAGR in retail loans).
- **Margin improves sequentially:** LTF reported largely line operating performance led by modest NII growth of +2% YoY, +6% QoQ as reported margins improved +9bps QoQ led by -16bps QoQ decline in CoFs and -8bps decline in yields. NIM+Fees stood strong at 10.22% (+7bps QoQ) vs management guidance of 10-10.5%. Opex grew +9% YoY, +4% QoQ leading to PPOP growth of +4% YoY, +6% QoQ -2% JMFe. Lower than expected credit costs of 2.2% (vs 2.5% QoQ) led to a PAT growth of (+2% YoY, +10% QoQ) beating our estimates by +4%. The lower credit costs was on the result of utilization of macro prudential provisions of INR 3bn adjusting for which credit costs was 3.4% vs 3.8% QoQ. We forecast EPS CAGR of 23% over FY25-27E.
- **Steady asset quality:** GS3/NS3 was largely steady at 3.31%/0.99% (+2bps QoQ both), with PCR at 71%. Retail GS3 was up +3bps QoQ at 2.93% on which the company



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	240
Upside/(Downside)	14.0%
Previous Price Target	230
Change	4.3%

Key Data – LTF IN

Current Market Price	INR211
Market cap (bn)	INR526.0/US\$6.1
Free Float	31%
Shares in issue (mn)	2,488.9
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,499.6/US\$17.4
52-week range	213/129
Sensex/Nifty	82,200/25,091
INR/US\$	86.3

Price Performance

%	1M	6M	12M
Absolute	10.8	44.2	19.7
Relative*	11.1	34.0	17.2

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	23,201	26,434	31,073	39,852	49,416
Net Profit (YoY) (%)	42.9%	13.9%	17.5%	28.3%	24.0%
Assets (YoY) (%)	-3.4%	17.2%	13.0%	13.3%	13.6%
ROA (%)	2.2%	2.4%	2.4%	2.7%	3.0%
ROE (%)	10.3%	10.8%	11.6%	13.6%	15.1%
EPS	9.3	10.6	12.5	16.0	19.8
EPS (YoY) (%)	42.4%	13.7%	17.5%	28.3%	24.0%
P/E (x)	22.6	19.9	16.9	13.2	10.7
BV	94	102	112	124	139
BV (YoY) (%)	8.5%	8.8%	9.1%	10.7%	12.0%
P/BV (x)	2.24	2.06	1.89	1.70	1.52

Source: Company data, JM Financial. Note: Valuations as of 21/Jul/2025

JM Financial Institutional Securities Limited

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maintains PCR of 72.3% (72.8% QoQ). Due to macro utilization during the quarter, the ECL cover on its retail stage 2 declined sharply from 42% in Q4FY25 to 29.1% during the quarter also leading to total provision cover to decline to 3.4% from 3.7% QoQ. The LTF+3 or more lenders now comprise 5.2% of total book (vs 8.2% in Q4FY25). Management expects Karnataka CEs to stabilize in next 3-4 months while Tamil Nadu legislations had negligible impact on collections. Management thus guided for 2.4% credit costs over FY26E with steady decline up to 2.3% in Q4FY26E.

- **Valuation and View:** We believe that the current quarterly performance highlights steady recovery from Karnataka book over the coming quarter while remaining book continues to perform well thus indicating better asset quality over the long term. The growth visibility has also strengthened given its partnerships with Amazon and Phonepe while its project Cyclops also offers significant support to the business in terms of underwriting. We maintain BUY with a revised target price of INR 240 (valuing at unchanged multiple of 1.9x FY27E BVPS).

LTFH – 1QFY26 Performance Update

Exhibit 1. 1QFY26 Results Snapshot

Income Statement (INR mn)	1Q'25	4Q'25	1Q'26	YoY (%)	QoQ (%)	1Q'26E	A/E
Interest Income	33,710	35,350	36,900	9.5%	4.4%	36,801	0.3%
Interest Expense	13,510	16,000	16,360	21.1%	2.3%	16,642	-1.7%
Net Interest Income	20,200	19,350	20,540	1.7%	6.1%	20,159	1.9%
Non-Interest Income	3,830	4,770	4,930	28.7%	3.4%	5,009	-1.6%
Total Income	24,030	24,120	25,470	6.0%	5.6%	25,167	1.2%
Total Operating Expenses	9,660	10,040	10,490	8.6%	4.5%	9,940	5.5%
Operating Profit (PPP)	14,370	14,080	14,980	4.2%	6.4%	15,228	-1.6%
Total Provisions	5,150	6,030	5,560	8.0%	-7.8%	6,237	-10.9%
PBT	9,220	8,050	9,420	2.2%	17.0%	8,990	4.8%
Tax	2,370	1,690	2,410	1.7%	42.6%	2,248	7.2%
PAT (Pre-Extraordinaries)	6,850	6,360	7,010	2.3%	10.2%	6,743	4.0%
Balance Sheet Data (INR bn)							
Total loans	887	978	1,023	15.3%	4.7%		
Disbursements	150	149	175	16.7%	17.5%		
Key ratios (%)							
Yield (%)	15.5%	14.9%	14.8%	-74bps	-8bps		
CoFs (%)	7.9%	7.8%	7.7%	-17bps	-16bps		
NIMs (%)	9.3%	8.2%	8.2%	-107bps	9bps		
GS3 (%)	3.14%	3.29%	3.31%	17bps	2bps		
NS3 (%)	0.79%	0.97%	0.99%	20bps	2bps		
Cost to income (%)	40.2%	41.6%	41.2%	99bps	-44bps		
RoA (%)	2.68%	2.22%	2.37%	-31bps	15bps		
ROE (%)	11.7%	10.1%	11.0%	-70bps	88bps		

Source: Company, JM Financial

Key takeaways from concall:

Growth:

- Gold Loans (high yield secured product) to add significant value to growth going forward. Company expects that GL segment will serve as a big cross-sell opportunity to its rural group loan customers and its existing customer base of 2.6cr. Company aspires to reach 300 branches in gold loans by FY26 (currently at 130 branches). Many of these new branches will be a new format Sampoorana Branches which will also offer other products like Micro-LAP, SME and PL.
- Farmer finance growth to remain strong with healthy kharif led by good monsoon while company continues to be cautious in PL segment with a risk calibrated approach.
- Home loans are experiencing seasonal dip.
- Last 8 quarters, company has tried to bring down repeated customers. However, last 2 quarters, this was up which will again start declining as MFI stabilizes and branch reach expands.
- With Amazon and Phonepe volumes now stabilizing, 2W disbursements are also expected to continue momentum in Q2 while festive season will further aid acceleration in H2.

Project Cyclops:

- The full implementation of Project Cyclops in farm business is expected to be completed by Q2FY26. Project Cyclops has been simultaneously rolled out in SME finance during the quarter and full deployment is expected to be completed by end of Q2FY26. Company has initiated extension of Project Cyclops in PL segment with full implementation expected by Q3FY26.
- Post implementation of project Cyclops in 2W business, approval rates has declined and had stabilized with catering to lower risk customers and in some cases, it has also added customers where normally company may had rejected. Management remains confident on risk-calibrated growth even post implementation of Project Cyclops in all the segments.
- 2W prime share is 84% which has led to decline in bounce rates from 100%+ in Mar'24 to 72% in Jun'25 led by Project Cyclops. Similarly for Farm equipment, net non-starters rate was 150% in Apr'24 which has reduced to 38% in Jun'25 (indexed at 100% in Mar'24).

Asset Quality:

- Rural micro loan collection efficiency in Karnataka is undergoing 20-30bps improvement every passing month which will take further 3-4 months to stabilize.
- Jul'25 CEs continue to trend upwards ex-Karnataka. Bihar CEs are stable. Company has pre-assigned thresholds for each areas which aids in maintaining better CEs.
- TN legislation had negligible impact on the company's business while Karnataka will take another 3-5 months to stabilize. Company has added more collectors in Karnataka and are organizing campaigns to make customers aware on importance to maintain good credit scores.
- Company would like to build macro prudential buffers as soon as possible. But this happens majorly when extraordinary gain flows in. The recoveries from CRE and Real estate whole sale book which is run down will be used to build macro prudential buffer going forward and it will not be only specific to one segment but to the whole business.
- Company aims to lower its credit costs to 2.3-2.5% by Q4FY26. FY26 credit costs to be 2.4-2.5%.
- Company has outstanding SRs of INR 55bn which are 60% provided for and resolutions from this is expected to come in FY27/FY28 as many of these are in advances stages with NCLT.

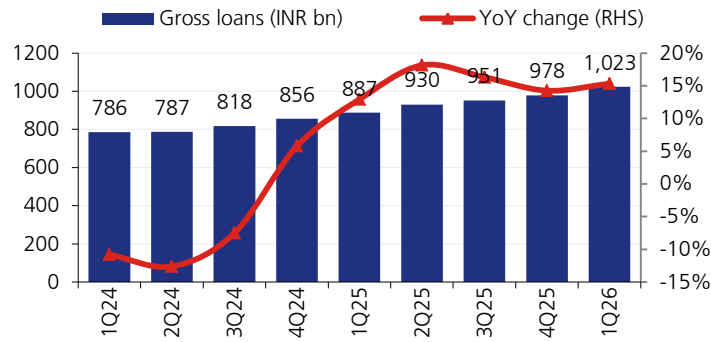
Margins:

- Adding more prime customers will have impact on yields, however, risk adjusted returns will remain similar. Though management expects 30-50bps yields decline due to this shift.

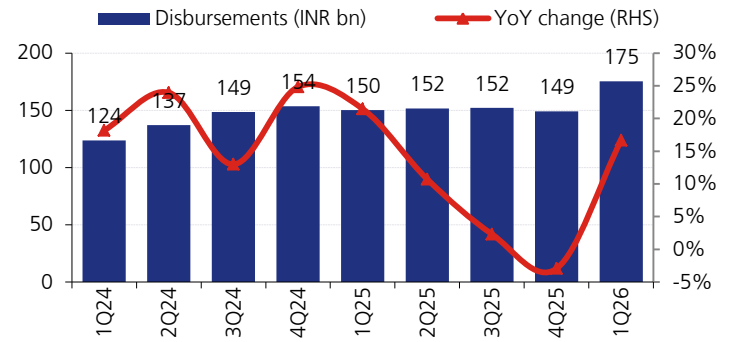
Other highlights:

- The company on-boarded 700 employees from Paul Merchants Finance for gold business.
- FY26 expected RoAs to be 2.5% and 2.8% for FY27E.

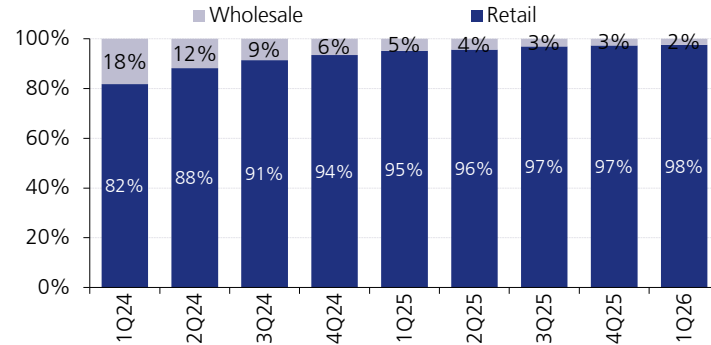
Quarterly Trends

Exhibit 2. Gross loans driven by retail segment


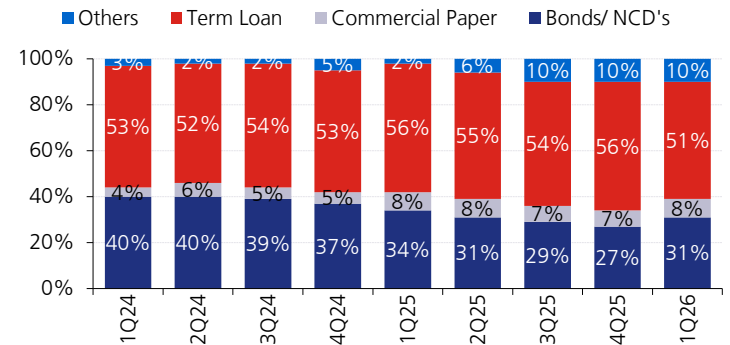
Source: Company, JM Financial

Exhibit 3. Strong pick up in disbursements


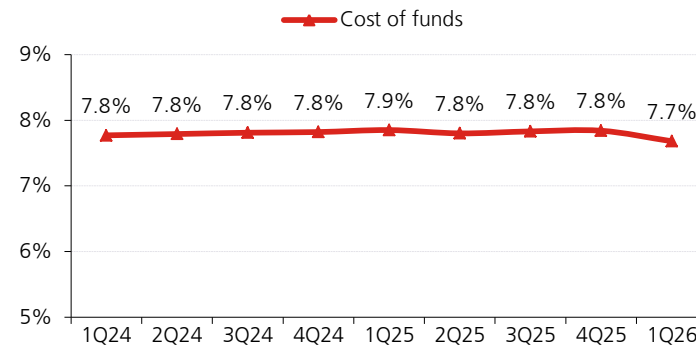
Source: Company, JM Financial

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


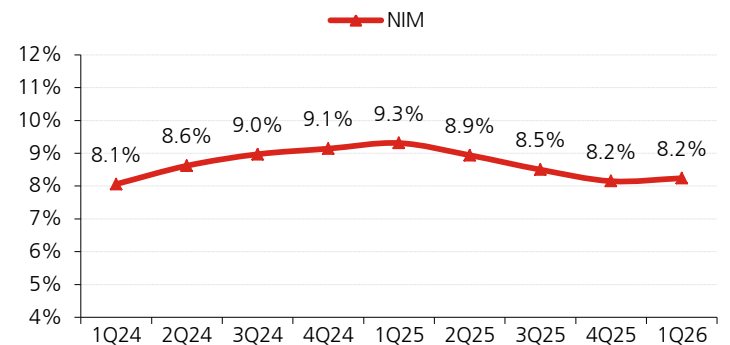
Source: Company, JM Financial

Exhibit 5. Share of term loans decreased sequentially


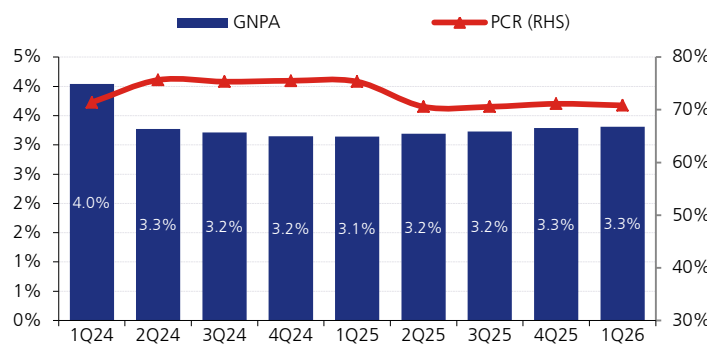
Source: Company, JM Financial

Exhibit 6. Cost of funds declined 16bps QoQ


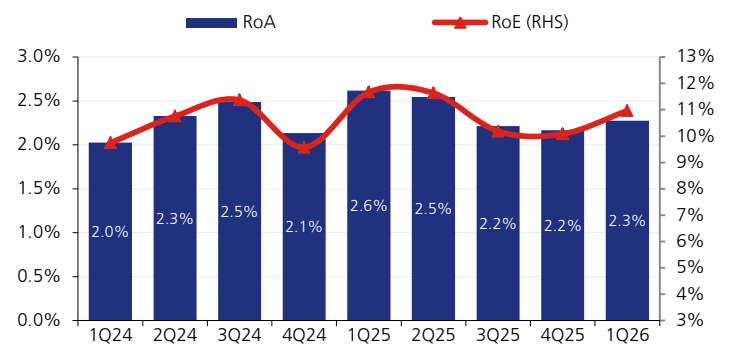
Source: Company, JM Financial

Exhibit 7. NIM improved 9bps QoQ


Source: Company, JM Financial

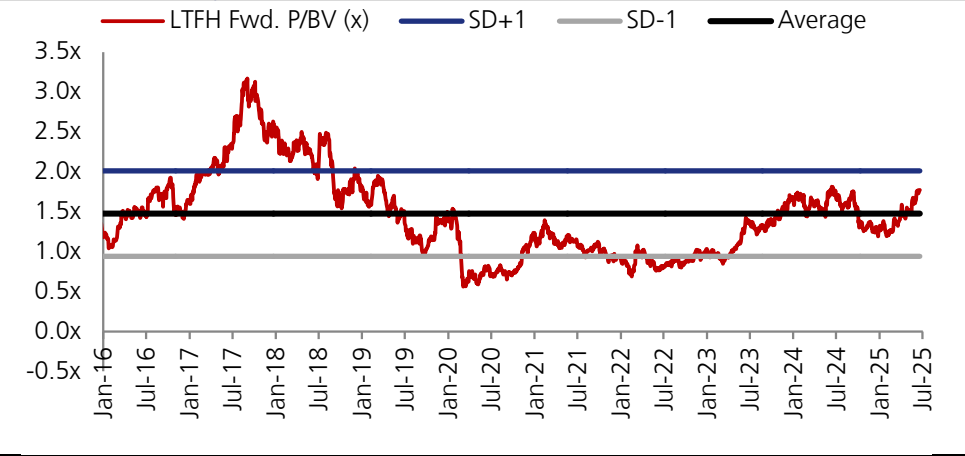
Exhibit 8. Steady asset quality


Source: Company, JM Financial

Exhibit 9. Return ratios improved sequentially


Source: Company, JM Financial

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



Source: 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	90,585	1,04,612	1,20,724
Non Interest Income	7,802	12,777	19,374	26,134	34,127
Total Income	83,170	99,442	1,09,958	1,30,745	1,54,851
Operating Expenses	35,079	39,846	42,893	48,782	56,158
Pre-provisioning Profits	48,091	59,597	67,066	81,963	98,694
Loan-Loss Provisions	13,164	21,942	22,894	26,086	30,064
Others Provisions	4,637	2,742	2,742	2,742	2,742
Total Provisions	17,801	24,684	25,636	28,828	32,806
PBT	30,290	34,913	41,430	53,135	65,888
Tax	7,119	8,478	10,358	13,284	16,472
PAT (Pre-Extra ordinaries)	23,171	26,434	31,073	39,852	49,416
Extra ordinaries (Net of Tax)	30	0	0	0	0
Reported Profits	23,201	26,434	31,073	39,852	49,416
Dividend	6,222	6,861	7,768	9,963	12,354
Retained Profits	16,979	19,573	23,305	29,889	37,062

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	2,53,996	2,83,885	3,20,947
Stock option outstanding	0	0	0	0	0
Borrowed Funds	7,65,409	9,23,724	10,53,046	12,00,472	13,68,538
Deferred tax liabilities	237	256	0	0	0
Preference Shares	0	0	0	0	0
Current Liabilities & Provisions	27,145	24,473	28,043	32,149	36,871
Total Liabilities	10,27,176	12,04,094	13,60,034	15,41,455	17,51,305
Net Advances	8,13,594	9,37,731	10,84,912	12,50,655	14,39,191
Investments	1,23,849	1,18,760	1,24,698	1,30,933	1,37,479
Cash & Bank Balances	46,760	1,08,329	1,13,746	1,19,433	1,25,405
Loans and Advances	2,505	1,225	1,286	1,351	1,418
Other Current Assets	13,431	10,221	7,228	10,567	18,924
Fixed Assets	5,416	6,726	7,062	7,415	7,786
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	13,60,034	15,41,455	17,51,305

Source: Company, JM Financial

Key Ratios					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)					
Borrowed funds	-7.8%	20.7%	14.0%	14.0%	14.0%
Advances	8.3%	15.3%	15.7%	15.3%	15.1%
Total Assets	-3.4%	17.2%	13.0%	13.3%	13.6%
NII	11.4%	15.0%	4.5%	15.5%	15.4%
Non-interest Income	572.3%	63.8%	51.6%	34.9%	30.6%
Operating Expenses	23.8%	13.6%	7.6%	13.7%	15.1%
Operating Profits	18.7%	23.9%	12.5%	22.2%	20.4%
Core Operating profit	20.8%	19.6%	10.6%	18.9%	18.4%
Provisions	-7.3%	38.7%	3.9%	12.5%	13.8%
Reported PAT	42.9%	13.9%	17.5%	28.3%	24.0%
Yields / Margins (%)					
Interest Spread	6.11%	6.52%	5.87%	6.06%	6.22%
NIM	9.63%	9.90%	8.96%	8.96%	8.98%
Profitability (%)					
ROA	2.22%	2.37%	2.42%	2.75%	3.00%
ROE	10.3%	10.8%	11.6%	13.6%	15.1%
Cost to Income	42.2%	40.1%	39.0%	37.3%	36.3%
Asset quality (%)					
Gross NPA	3.24%	3.35%	3.11%	3.09%	3.10%
LLP	1.70%	2.21%	2.00%	1.99%	1.99%
Capital Adequacy (%)					
Tier I	21.02%	20.76%	21.83%	21.20%	20.77%
CAR	22.84%	22.27%	23.36%	22.76%	22.35%

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	7.21%	7.77%	7.07%	7.21%	7.33%
Other Income / Assets	0.75%	1.15%	1.51%	1.80%	2.07%
Total Income / Assets	7.96%	8.91%	8.58%	9.01%	9.41%
Cost / Assets	3.36%	3.57%	3.35%	3.36%	3.41%
PPP / Assets	4.60%	5.34%	5.23%	5.65%	5.99%
Provisions / Assets	1.70%	2.21%	2.00%	1.99%	1.99%
PBT / Assets	2.90%	3.13%	3.23%	3.66%	4.00%
Tax rate	23.5%	24.3%	25.0%	25.0%	25.0%
ROA	2.22%	2.37%	2.42%	2.75%	3.00%
Leverage	4.4	4.7	4.9	5.0	5.1
ROE	10.3%	10.8%	11.6%	13.6%	15.1%

Source: Company, JM Financial

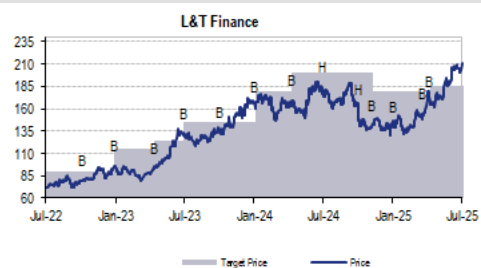
Valuations					
Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Shares in Issue	2,488.9	2,494.9	2,494.9	2,494.9	2,494.9
EPS (INR)	9.3	10.6	12.5	16.0	19.8
EPS (YoY) (%)	42.4%	13.7%	17.5%	28.3%	24.0%
P/E (x)	22.6	19.9	16.9	13.2	10.7
BV (INR)	94	102	112	124	139
BV (YoY) (%)	8.5%	8.8%	9.1%	10.7%	12.0%
P/BV (x)	2.24	2.06	1.89	1.70	1.52
DPS (INR)	2.5	2.8	3.1	4.0	5.0
Div. yield (%)	1.2%	1.3%	1.5%	1.9%	2.3%

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
18-Jan-21	Buy	110	
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
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

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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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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