

Retail Equity Research

L&T Finance Ltd.

**HOLD**

Sector: NBFC

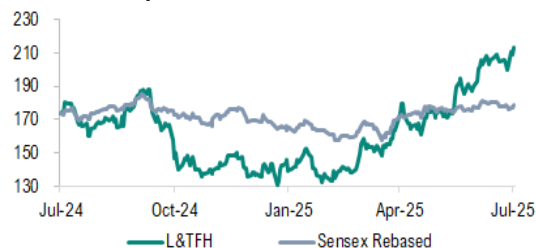
28th July, 2025

Key Changes	Target	Rating	Earnings	Target	Rs. 225
Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Mid Cap	LTFH:IN	81,463	LTF	533519	12 Months
				CMP	Rs. 205
				Return	+10%

Data as of: 25-07-2025, 18:00 hrs

Company Data			
Market Cap (Rs. cr)	51,166		
52 Week High — Low (Rs.)	215 - 129		
Outstanding Shares (cr)	249.8		
Free Float (%)	32.1		
Dividend Yield (%)	1.3		
6m average volume (cr.)	0.7		
Beta	1.7		
Face value (Rs.)	10.0		
Shareholding (%)	Q3FY25	Q4FY25	Q1FY26
Promoters	66.3	66.2	66.2
FII's	5.3	5.5	6.2
MFs/Insti	12.2	13.3	14.1
Public	13.7	12.5	11.4
Others	2.6	2.5	2.1
Total	100.0	100.0	100.0
Promoter Pledge	-	-	-
Price Performance	3 Month	6 Month	1 Year
Absolute Return	18.6%	52.7%	22.4%
Absolute Sensex	3.3%	8.1%	2.9%
Relative Return	15.3%	44.6%	19.5%

*over or under performance to benchmark index



Y.E March (Rs.cr)	FY25A	FY26E	FY27E
Net Interest Income	8,667	10,032	11,671
Growth (%)	15.0	15.8	16.3
NIM (%)	8.7	8.8	9.5
Pre-Provision Profit	5,685	6,573	7,643
Net Profit	2,644	3,156	3,815
Growth (%)	13.9	19.4	20.9
Adj. EPS	10.6	12.7	15.3
Growth (%)	13.7	19.4	20.9
BVPS	102.5	112.4	125.0
P/E	14.5	16.9	14.0
P/B	1.5	1.9	1.7
RoE (%)	10.8	11.8	12.9
RoA (%)	2.4	2.4	2.7

Transitory asset quality stress and high valuation

L&T Finance Ltd. (LTF) provides financial products and services in the corporate, infrastructure, and retail sectors. It also offers fund products and investment services.

- In Q1FY26, LTF's interest income grew 13.37% YoY to Rs. 3,915 cr, driven by momentum in the retail segment—personal, SME, urban finance, and gold loans. However, interest expenses surged 21.03% YoY to Rs. 1,636 cr, resulting in a modest 8.40% YoY increase in net interest income, which rose to Rs. 2,279 cr.
- Net interest margin shrank 107 bps YoY to 8.24%, while yield on advances fell 74 bps YoY to 14.80% in Q1FY26, due to the company's shift in focus towards the lower-yield, secured prime segment and risk-adjusted returns.
- During Q1FY26, pre-provisioning profit grew 13.2% YoY to Rs. 1,486 cr, aided by moderate growth in operating expenses.
- LTF's profit after tax grew only 2.3% YoY to Rs. 701 cr, dragged down by higher provisions (+39.0% YoY).
- Consolidated asset quality deteriorated slightly, with gross stage 3 assets (GS3) increasing to 3.31% in Q1FY26 from 3.14% in Q1FY25, while net stage 3 (NS3) rose to 0.99% from 0.79%. Despite the increased stress, the provision coverage ratio (PCR) remained robust at 71%, ensuring adequate loss absorption capacity.

Outlook & Valuation

LTF's performance was resilient owing to a robust retail execution and accelerated adoption of digital and AI-led platforms. It made strong progress in scaling the gold loan franchise, dipping into fintech partnerships and premiumizing customer segments. However, persistent stress in select microfinance pools could weigh on asset quality and collection trends in the near term. Though credit costs are expected to normalize and disbursement momentum is likely to improve in H2FY26, supported by Project Cyclops-led underwriting and expansion efforts. **However, owing to high valuation, we are downgrading our rating to HOLD, based on 1.8x FY27E BVPS with a revised target price of Rs. 225.**

Quarterly Finance Consol.

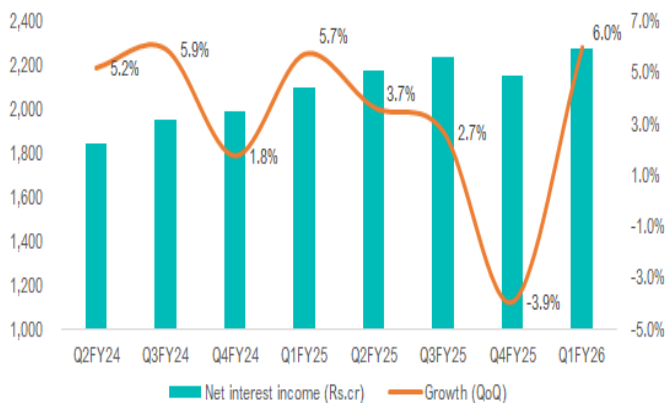
Rs.cr	Q1FY26	Q1FY25	YoY Growth (%)	Q4FY25	QoQ Growth (%)
Net Interest Income	2,279	2,101	8.4	2,150	6.0
Total Income	4,260	3,785	12.6	4,027	5.8
Total Expenditure	2,774	2,472	12.2	2,698	2.8
Pre-Provision Profit	1,486	1,312	13.2	1,329	11.8
PBT	943	922	2.3	806	17.1
Rep. PAT	701	686	2.3	636	10.2
Adj PAT	701	686	2.3	636	10.2
EPS (Rs.)	2.8	2.8	2.0	2.5	10.1



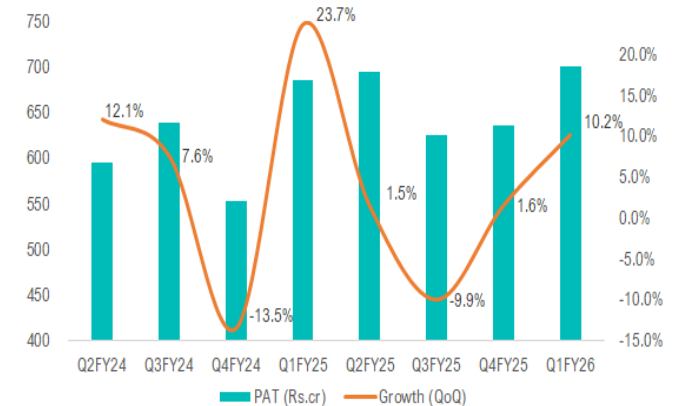
Key Concall Highlights

- Retail asset quality weakened, with GS3 assets rising to 2.93% in Q1FY26 from 2.79% in Q1FY25, while NS3 assets rose to 0.83% from 0.62%. The retail PCR stood at 72%, down from 78% last year, reflecting a higher share of net stressed assets, despite adequate provisioning.
- LTF's total disbursements in Q1FY26 rose as retail disbursements grew 18% YoY to Rs. 17,522 cr, driven by robust growth in farmer finance (+16% YoY), SME (+30% YoY), and urban (+13% YoY). However, this was offset by a fall in rural business disbursements (-3% YoY) and acquired portfolio disbursements (-65% YoY).
- The total loan book grew 15% YoY to Rs. 102,314 cr in Q1FY26, primarily fuelled by an 18% YoY rise in retail business, partially offset by a -42% YoY decline in wholesale loans. The retail loan book growth was driven by strong performances in urban finance (+25% YoY), SME finance (+56% YoY), and farmer finance (+11% YoY), while rural business finance grew at a slower pace of 3% YoY, while the acquired portfolio declined 23% YoY.
- LTF was impacted by collection issues in Karnataka due to a February 2025 ordinance and shifting focus to prime customers. The company expects Karnataka collection to normalize by October 2025, aided by improved operational intensity.
- The management is aiming to reduce credit costs to 2.3-2.5% by Q4FY26, assuming stability.

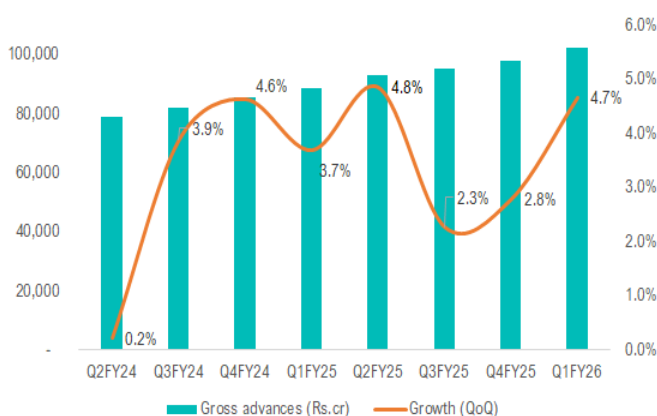
Net Interest Income



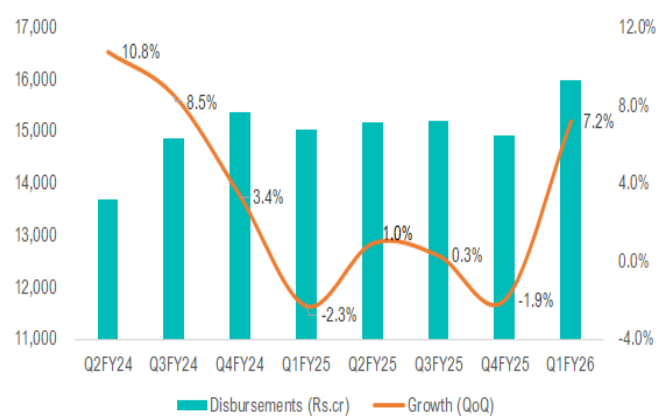
PAT



Gross advances



Disbursements



Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Net Interest Income	10,358	11,707	10,032	11,671	-3.2	-0.3
Net Interest Margin	9.2	9.6	8.8	9.5	-37bps	-14bps
Pre-Provision Profit	6,701	7,613	6,573	7,643	-1.9	0.4
Net Profit	3,282	3,839	3,156	3,815	-3.8	-0.6
EPS	13.2	15.4	12.7	15.3	-4.2	-0.7



Standalone Financials

Profit & Loss

Y.E March (Rs. cr)	FY23A	FY24A	FY25A	FY26E	FY27E
Interest Income	12,565	12,914	14,663	17,033	19,492
Interest Expense	5,797	5,377	5,997	7,001	7,821
Net Interest	6,768	7,537	8,667	10,032	11,671
% Change	13.7	11.4	15.0	15.8	16.3
Non-Interest Income	737	1,137	1,278	1,485	1,739
Net Income	7,504	8,674	9,944	11,516	13,410
Total Income	13,302	14,051	15,941	18,518	21,231
Operating Ex-	3,814	4,322	4,260	4,943	5,767
Total Expenditure	9,611	9,700	10,256	11,944	13,588
Pre-Provisioning Profit	3,691	4,351	5,685	6,573	7,643
Provisions	1,560	1,322	2,193	2,552	2,782
Profit Before Tax	2,131	3,029	3,491	4,021	4,860
Tax	172	712	848	865	1,046
Tax Rate (%)	8.1	23.5	24.3	21.5	21.5
Minority Interests	(87)	(3)	(0)	(0)	(0)
Net Profit	1,623	2,320	2,644	3,156	3,815
% Change	51.7	42.9	13.9	19.4	20.9
Adj.	422	-	-	-	-
Adj. Net Profit	2,045	2,320	2,644	3,156	3,815
No. of Shares (cr)	248	249	249	249	249
Adj. EPS (Rs.)	8.2	9.3	10.6	12.7	15.3
% Change	134.6	13.1	13.7	19.4	20.9
DPS	2.0	2.5	2.8	2.8	2.8

Balance Sheet

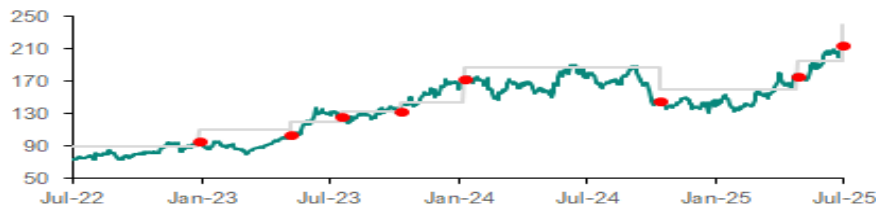
Y.E March (Rs. cr)	FY23A	FY24A	FY25A	FY26E	FY27E
Cash & Balances	12,749	4,676	10,833	11,813	12,876
Investments	14,366	12,385	11,876	12,832	13,089
Advances	75,155	81,359	93,773	108,777	112,040
Fixed Assets	557	555	686	848	1,049
Other Assets	3,535	3,742	3,241	3,306	3,372
Total Assets	106,362	102,718	120,409	137,577	142,427
Capital	2,480	2,489	2,495	2,507	2,520
Reserves & Surplus	19,049	20,950	23,069	25,539	28,664
Borrowings	80,306	74,063	90,539	98,688	108,556
Other Liabilities	4,527	5,217	4,306	10,842	2,686
Total Liabilities	106,362	102,718	120,409	137,577	142,427
BVPS	86.7	94.2	102.5	112.4	125.0
Adj. BVPS	82.2	91.6	98.8	108.8	122.0
% Change	11.1	11.5	7.9	10.1	12.1

Ratio

Y.E March	FY23A	FY24A	FY25A	FY26E	FY27E
Valuation					
P/E (x)	10.0	17.0	14.5	16.9	14.0
P/BV (x)	0.9	1.7	1.5	1.9	1.7
Div. Yield (%)	2.4	1.6	1.8	1.3	1.3
Profitability & Return (%)					
Yield on Advances	13.7	14.1	14.7	15.0	15.8
Cost of Deposits	7.2	7.0	7.3	7.4	7.5
Spread	6.5	7.1	7.4	7.6	8.3
NIM (calculated)	7.1	8.7	8.7	8.8	9.5
ROE	7.8	10.3	10.8	11.8	12.9
ROA	1.5	2.2	2.4	2.4	2.7
Asset Quality (%)					
GNPA	4.7	3.2	3.3	3.2	3.1
NNPA	1.5	0.8	1.0	0.8	0.7
Operating Ratios (%)					
Cost/Income	50.8	49.8	42.8	42.9	43.0



Recommendation Summary - last 3 years



Dates	Rating	Target
18-Jan-23	BUY	110
30-May-23	BUY	119
9-Aug-23	HOLD	133
1-Nov-23	HOLD	143
31-Jan-24	ACCUMULATE	186
5-Nov-24	ACCUMULATE	160
19-May-25	ACCUMULATE	195
28-Jul-25	HOLD	225

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%

Not rated/Neutral Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition:



Upgrade



No Change



Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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