

L&T Finance | BUY

In-line quarter

L&T Finance (LTF) reported an in-line quarter, with PAT increasing modestly (+2% QoQ, +15% YoY, in-line JMFe), while RoA moderated slightly to 2.17% (-5bps QoQ). Credit costs, though lower sequentially, remained elevated at 2.5% (-4bps QoQ), largely due to stress in the MFI, PL, and 2W portfolios. Additionally, LTF utilized INR 3bn from its macro-prudential provisions (current outstanding provisions of INR 5.75bn), which, when adjusted, results in an effective credit cost of 3.8%. Credit costs are expected to remain elevated through H1FY26, with gradual improvement anticipated afterward. Growth remained soft (+3% QoQ) as disbursements remained weak (-3% YoY, -2% QoQ) led by slowdown in retail finance (-1% YoY, 2% QoQ) primarily in rural business loan (-30% QoQ) and 2W (-23% QoQ) segments. This contributed to a decline in yields to 14.9% (-16bps QoQ) and subsequently margin compression to 8% (-65bps QoQ). Mgmt. has guided for loan growth of 20-25%, NIM + fees to be in the range of 10-10.5% and credit cost of 2.3-2.5% in FY26. Regarding the TN ordinance, mgmt. expects the impact to be short-term, similar to the Karnataka ordinance, with a disruption lasting 3-4 months, after which collection efficiencies are expected to stabilize. While stock currently trades at inexpensive valuations of 1.3x FY27E BVPS for avg. RoA/RoE of ~2.6%/13% over FY26/27E, company's previous challenges with asset quality remain a key risk factor. We believe that a meaningful re-rating of the stock will depend on a) successful execution of the strategy to shift towards prime and near-prime customers while maintaining returns, b) realization of operating leverage through strategic technology investments, and c) effective management of credit costs, particularly through the rollout of proprietary AI-ML underwriting across all segments. We maintain BUY with a target price of INR 185 (valuing company at 1.5x FY27E BVPS).

- **Disbursements remain muted; growth remains soft:** Disbursements remained weak (-3% YoY, -2% QoQ) led by slowdown in key segments such as retail finance (-1% YoY, 2% QoQ) primarily in rural business loan (-30% QoQ) and 2W (-23% QoQ) segments. As a result, overall growth trends remained soft, with a 3% QoQ increase. Within the retail book, growth was driven by SME finance (+12% QoQ), followed by LAP (+8% QoQ) and home loans (+6% QoQ). Conversely, wholesale book contracted (-11% QoQ, -53% YoY). Rural business/MFI loans remained flat sequentially, while 2W segment showed modest growth (+5% QoQ). Additionally, LTF has expanded into gold loans through a slump sale agreement with Paul Merchants Finance Pvt. Ltd. Mgmt. guides for overall loan growth of 20-25%, with MFI growth projected in the range of 15-20%. We build in AUM CAGR of 19% over FY25-27E.
- **Margin remains under pressure:** Operating performance remained muted (-1% QoQ, +3% YoY) on the back of decline in NII (-5% QoQ, +1% YoY). PPop was partially supported by a 5% QoQ reduction in operating expenses, which led to a favorable decline in the cost-to-assets ratio to 3.4% (vs. 3.7% QoQ). Mgmt. expects further operating efficiencies, particularly in collections and credit administration, led by implementation of Project Cyclops. Yields slipped to 14.9% (-16bps QoQ), reflecting slower growth in high-yielding unsecured assets. Consequently, margins continued to



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	185
Upside/(Downside)	10.3%
Previous Price Target	175
Change	5.7%

Key Data – LTF IN

Current Market Price	INR168
Market cap (bn)	INR418.3/US\$4.9
Free Float	30%
Shares in issue (mn)	2,488.9
Diluted share (mn)	
3-mon avg daily val (mn)	INR775.7/US\$9.1
52-week range	194/129
Sensex/Nifty	80,218/24,329
INR/US\$	85.0

Price Performance

%	1M	6M	12M
Absolute	9.4	17.9	2.4
Relative*	5.6	18.1	-4.7

* To the BSE Sensex

Financial Summary

(INR mn)

Y/E March	FY24A	FY25A	FY26E	FY27E	FY28E
Net Profit	23,201	26,440	33,072	39,606	47,406
Net Profit (YoY) (%)	42.9%	14.0%	25.1%	19.8%	19.7%
Assets (YoY) (%)	-3.4%	17.2%	15.5%	18.1%	18.4%
ROA (%)	2.2%	2.4%	2.5%	2.6%	2.6%
ROE (%)	10.3%	10.8%	12.3%	13.4%	14.5%
EPS	9.3	10.6	13.3	15.9	19.0
EPS (YoY) (%)	42.4%	13.7%	25.1%	19.8%	19.7%
P/E (x)	18.0	15.9	12.7	10.6	8.8
BV	94	102	112	124	139
BV (YoY) (%)	8.5%	8.8%	9.7%	10.6%	11.5%
P/BV (x)	1.78	1.64	1.49	1.35	1.21

Source: Company data, JM Financial. Note: Valuations as of 28/Apr/2025

JM Financial Institutional Securities Limited

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face pressure, falling by 65bps QoQ. Looking ahead, mgmt. has guided for NIM + fees to be in the range of 10-10.5%.

- **Asset quality headwinds continue:** GS3/NS3 further deteriorated to 3.29%/0.97% (+6bps QoQ, flat QoQ), with PCR at 71%. While credit costs showed a slight sequential improvement, they remained elevated at 2.5% (-4bps QoQ), primarily driven by stress in the MFI, PL, and 2W portfolios. Additionally, LTF utilized INR 3bn of macro-prudential provisions, leaving an outstanding balance of INR 5.75bn. Adjusting for this, credit costs would have been 3.8%. We expect credit costs to stay elevated through H1 FY26, with gradual moderation expected thereafter. Following the successful implementation of Project Cyclops 2.0 in its 2W portfolio, mgmt. is now rolling out the initiative in farm equipment segment, with plans for PL in 1QFY26 and SME finance in 2QFY26. These efforts are expected to support a reduction in credit costs over time. We build in avg. credit costs of 2.3% over FY26E-27E.
- **Valuations and view:** While stock currently trades at inexpensive valuations of 1.3x FY27E BVPS for avg. RoA/RoE of 2.6%/12.9% over FY26E-27E, the company's previous challenges with asset quality remain a key risk factor. We believe that a meaningful re-rating of the stock will depend on a) successful execution of the strategy to shift towards prime and near-prime customers while maintaining returns, b) realization of operating leverage through strategic technology investments, and c) effective management of credit costs, particularly through the rollout of proprietary AI-ML underwriting across all segments. We maintain BUY with a target price of INR 150 (valuing company at 1.5x FY27E BVPS).

LTFH – 4QFY25 Performance Update

Exhibit 1. 4QFY25 Quarterly Performance

Earnings Table (INR mn)	4Q'24	3Q'25	4Q'25	YoY (%)	QoQ (%)
Net Interest Income	19,090	20,410	19,350	1.4%	-5.2%
Non-Interest Income	4,410	4,390	4,770	8.2%	8.7%
Total Income	23,500	24,800	24,120	2.6%	-2.7%
Employees Cost	5,008	5,793	5,691	13.7%	-1.8%
Other Operating Expenses	4,793	4,787	4,349	-9.3%	-9.2%
Total Operating Expenses	9,800	10,580	10,040	2.4%	-5.1%
Operating Profit (PPP)	13,700	14,220	14,080	2.8%	-1.0%
Total Provisions	6,750	5,980	6,030	-10.7%	0.8%
PBT	6,950	8,240	8,050	15.8%	-2.3%
Tax	1,410	1,980	1,690	19.9%	-14.6%
Reported Profit	5,540	6,260	6,360	14.8%	1.6%

Balance Sheet Data (INR bn)

Total loans	855.7	951.2	977.6	14.3%	2.8%
Disbursements	153.7	152.1	149.1	-2.9%	-1.9%

Ratios Analysis (%)

Cost to Income (%)	41.7%	42.7%	41.6%	-0.08%	-1.04%
Effective Tax Rate (%)	20.3%	24.0%	21.0%	0.71%	-3.04%

Credit Quality

Gross Stage 3	26,980	30,750	32,180	19.3%	4.7%
Net Stage 3	6,610	9,050	9,290	40.5%	2.7%
Gross Stage 3 (%)	3.15%	3.23%	3.29%	0.14%	0.06%
Net Stage 3 (%)	0.79%	0.97%	0.97%	0.18%	0.00%
Coverage Ratio (Stage 3) (%)	75.5%	70.6%	71.1%	-4.4%	0.6%

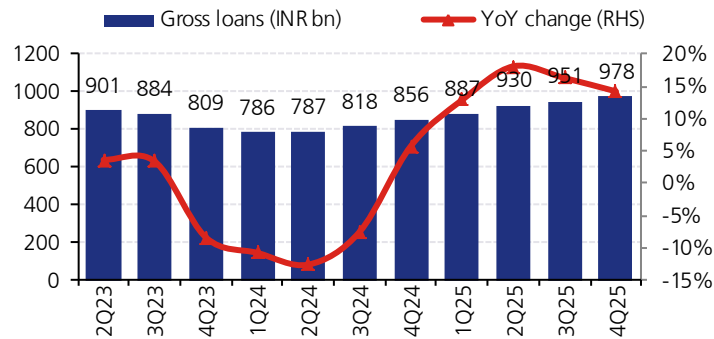
Source: Company, JM Financial

Exhibit 2. Du-pont analysis 4QFY25

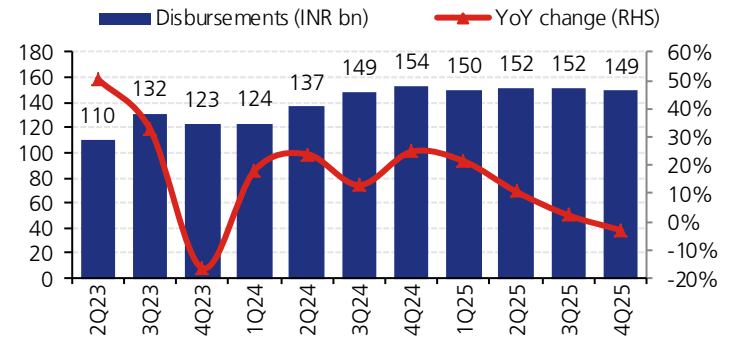
Du-pont Analysis (%)	4Q'24	3Q'25	4Q'25	YoY (%)	QoQ (%)
NII / Avg. Assets (%)	7.36%	7.22%	6.59%	-0.76%	-0.63%
Non-Interest Inc. / Assets (%)	0.36%	0.71%	0.74%	0.38%	0.03%
Op. Cost / Assets (%)	3.78%	3.74%	3.42%	-0.35%	-0.32%
PPP / Assets (%)	5.28%	5.03%	4.80%	-0.48%	-0.23%
Provisions / Assets (%)	2.60%	2.12%	2.05%	-0.55%	-0.06%
ROA (%)	2.13%	2.21%	2.17%	0.03%	-0.05%
ROE (%)	9.6%	10.2%	10.1%	0.51%	-0.10%

Source: Company, JM Financial

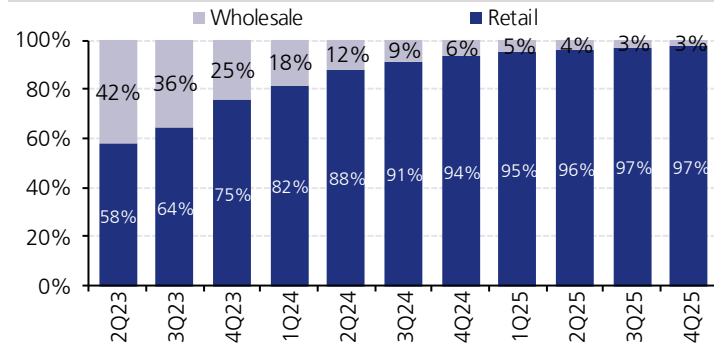
Quarterly Trends

Exhibit 3. Gross loans driven by retail segment


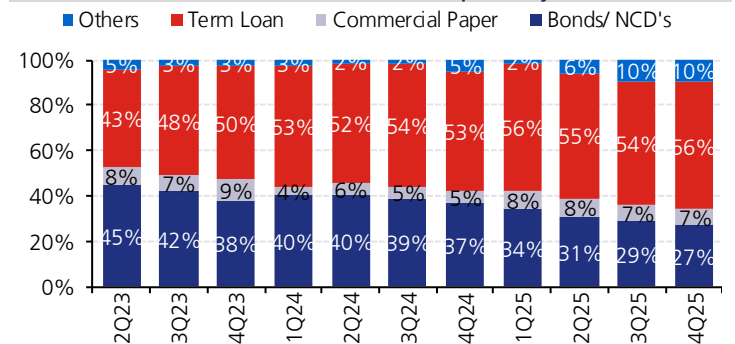
Source: Company, JM Financial

Exhibit 4. Steady disbursements trend


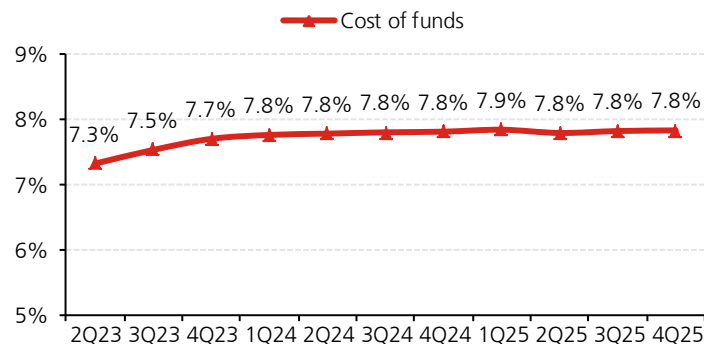
Source: Company, JM Financial

Exhibit 5. Share of retail loans now forms ~97% of the book


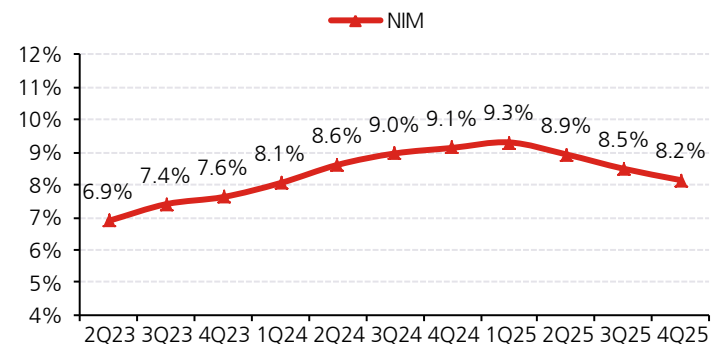
Source: Company, JM Financial

Exhibit 6. Share of term loans decreased sequentially


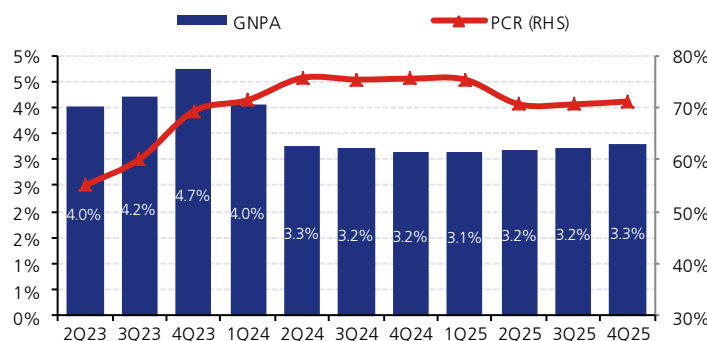
Source: Company, JM Financial

Exhibit 7. Trend in cost of funds


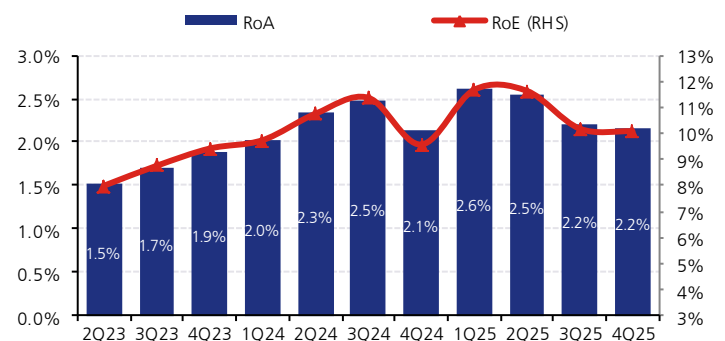
Source: Company, JM Financial

Exhibit 8. Trend in NIM margins


Source: Company, JM Financial

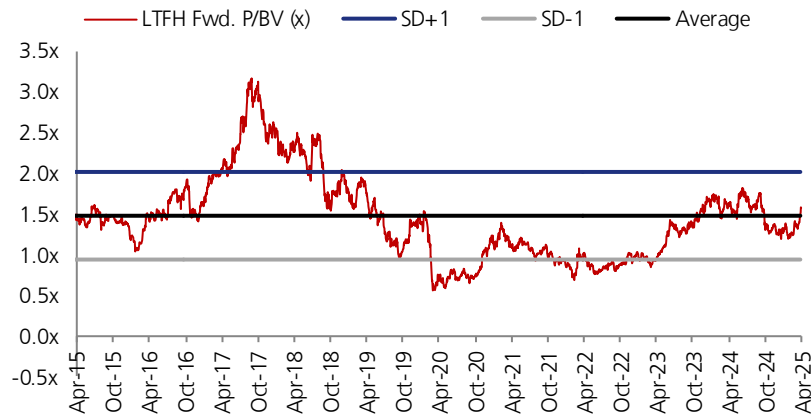
Exhibit 9. Steady asset quality


Source: Company, JM Financial

Exhibit 10. Return ratios impacted due to higher credit costs


Source: Company, JM Financial

Exhibit 11. 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	80,470	94,606	1,12,807	1,35,038	
Non Interest Income	7,802	17,400	19,140	21,054	23,159	
Total Income	83,170	97,870	1,13,746	1,33,861	1,58,197	
Operating Expenses	35,079	39,840	44,300	51,526	59,576	
Pre-provisioning Profits	48,091	58,030	69,446	82,335	98,621	
Loan-Loss Provisions	13,164	23,110	25,350	29,526	35,413	
Others Provisions	4,637	0	0	0	0	
Total Provisions	17,801	23,110	25,350	29,526	35,413	
PBT	30,290	34,920	44,096	52,808	63,208	
Tax	7,119	8,480	11,024	13,202	15,802	
PAT (Pre-Extra ordinaries)	23,171	26,440	33,072	39,606	47,406	
Extra ordinaries (Net of Tax)	30	0	0	0	0	
Reported Profits	23,201	26,440	33,072	39,606	47,406	
Dividend	6,222	6,861	8,268	9,902	11,851	
Retained Profits	16,979	19,579	24,804	29,705	35,554	

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	2,55,496	2,85,201	3,20,755	
Stock option outstanding	0	0	0	0	0	
Borrowed Funds	7,65,409	9,23,724	10,80,758	12,96,909	15,56,291	
Deferred tax liabilities	237	256	0	0	0	
Preference Shares	0	0	0	0	0	
Current Liabilities & Provisions	27,145	24,473	29,233	34,946	41,801	
Total Liabilities	10,27,176	12,04,094	13,90,436	16,42,004	19,43,796	
Net Advances	8,13,594	9,37,731	11,07,988	13,30,380	15,99,755	
Investments	1,23,849	1,18,760	1,24,698	1,30,933	1,37,479	
Cash & Bank Balances	46,760	1,08,329	1,19,162	1,31,078	1,44,186	
Loans and Advances	2,505	1,225	1,348	1,482	1,631	
Other Current Assets	13,431	10,221	8,740	18,891	30,691	
Fixed Assets	5,416	6,726	7,398	8,138	8,952	
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	13,90,436	16,42,004	19,43,796	

Source: Company, JM Financial

Key Ratios		FY24A	FY25A	FY26E	FY27E	FY28E
Growth (YoY) (%)						
Borrowed funds	-7.8%	20.7%	17.0%	20.0%	20.0%	
Advances	8.3%	15.3%	18.2%	20.1%	20.2%	
Total Assets	-3.4%	17.2%	15.5%	18.1%	18.4%	
NII	11.4%	6.8%	17.6%	19.2%	19.7%	
Non-interest Income	572.3%	123.0%	10.0%	10.0%	10.0%	
Operating Expenses	23.8%	13.6%	11.2%	16.3%	15.6%	
Operating Profits	18.7%	20.7%	19.7%	18.6%	19.8%	
Core Operating profit	20.8%	17.7%	16.2%	17.7%	18.2%	
Provisions	-7.3%	29.8%	9.7%	16.5%	19.9%	
Reported PAT	42.9%	14.0%	25.1%	19.8%	19.7%	
Yields / Margins (%)						
Interest Spread	9.15%	5.95%	6.12%	6.43%	6.63%	
NIM	9.63%	9.19%	9.25%	9.25%	9.22%	
Profitability (%)						
ROA	2.22%	2.37%	2.55%	2.61%	2.64%	
ROE	10.3%	10.8%	12.3%	13.4%	14.5%	
Cost to Income	42.2%	40.7%	38.9%	38.5%	37.7%	
Asset quality (%)						
Gross NPA	3.24%	3.35%	3.15%	3.09%	3.08%	
LLP	1.70%	2.07%	1.95%	1.95%	1.98%	
Capital Adequacy (%)						
Tier I	21.02%	20.76%	21.46%	19.98%	18.71%	
CAR	22.84%	22.27%	22.96%	21.44%	20.13%	

Source: Company, JM Financial

Dupont Analysis		FY24A	FY25A	FY26E	FY27E	FY28E
NII / Assets	7.21%	7.21%	7.29%	7.44%	7.53%	
Other Income / Assets	0.75%	1.56%	1.48%	1.39%	1.29%	
Total Income / Assets	7.96%	8.77%	8.77%	8.83%	8.82%	
Cost / Assets	3.36%	3.57%	3.41%	3.40%	3.32%	
PPP / Assets	4.60%	5.20%	5.35%	5.43%	5.50%	
Provisions / Assets	1.70%	2.07%	1.95%	1.95%	1.98%	
PBT / Assets	2.90%	3.13%	3.40%	3.48%	3.53%	
Tax rate	23.5%	24.3%	25.0%	25.0%	25.0%	
ROA	2.22%	2.37%	2.55%	2.61%	2.64%	
Leverage	4.4	4.7	5.0	5.3	5.6	
ROE	10.3%	10.8%	12.3%	13.4%	14.5%	

Source: Company, JM Financial

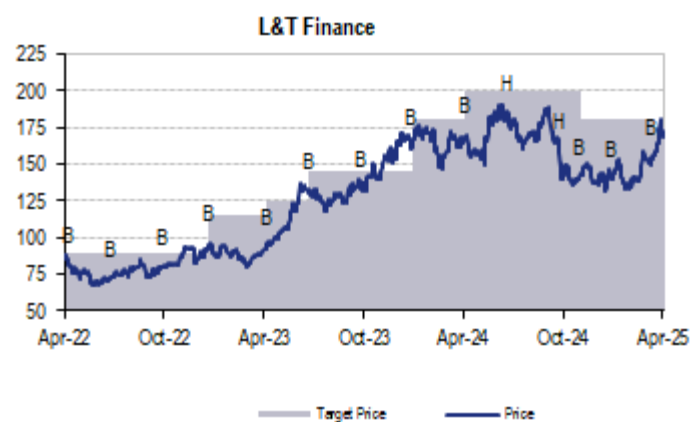
Valuations		FY24A	FY25A	FY26E	FY27E	FY28E
Y/E March						
Shares in Issue	2,488.9	2,494.9	2,494.9	2,494.9	2,494.9	
EPS (INR)	9.3	10.6	13.3	15.9	19.0	
EPS (YoY) (%)	42.4%	13.7%	25.1%	19.8%	19.7%	
P/E (x)	18.0	15.9	12.7	10.6	8.8	
BV (INR)	94	102	112	124	139	
BV (YoY) (%)	8.5%	8.8%	9.7%	10.6%	11.5%	
P/BV (x)	1.78	1.64	1.49	1.35	1.21	
DPS (INR)	2.5	2.8	3.3	4.0	4.8	
Div. yield (%)	1.5%	1.6%	2.0%	2.4%	2.8%	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
24-Oct-20	Buy	74	
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
26-Nov-24	Buy	180	-10.0
22-Jan-25	Buy	180	0.0
8-Apr-25	Buy	175	-2.8

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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

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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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