L&T Finance Limited (LTFINA)

ICICI Direct

CMP: ₹ 210 | Target: ₹ 250 (19%) | Target Period: 12 months | BUY

July 22, 2025

On track execution, marginal volatility in near term

About the stock: L&T Finance Holding (LTFH) is a leading NBFC catering to the diverse financing needs of underserved customers in urban and rural areas.

- LTFH is engaged in consumer loans, 2-wheeler loans, home loans, MFI, farm & SME loans.
- Distribution network remains strong with substantial dealer penetration (2500+ dealers in farm equipment & 8500+ tie-ups in 2-wheeler segment)

Q1FY26 performance: L&T Finance reported a steady performance in Q1FY26 with visible recovery in rural portfolios. Retail disbursements stood at ₹17,522 crore (up 18% YoY, 18% QoQ), primarily led by integration of recently acquired gold loan portfolio. Retail book expanded 18% YoY to ₹99,816 crore, while consolidated AUM increased 15% YoY to ₹1,02,314 crore. NIM+Fees remained healthy at 10.22% vs 10.15% in Q4FY25. PAT improved 2% YoY (10% QoQ) to ₹701 crore; RoA rose to 2.37% and RoE to 10.86%. Asset quality metrics were stable with GNPA at 2.93% and NNPA at 0.83%. Credit cost stood at 2.23% (post utilizing ₹300 crore of provision buffer), excluding the same, provision run-rate remained flat.

Investment Rationale

- **Disciplined Growth Amid Segment Shift:** LTF reported muted disbursements in Q1FY26, up 7-8% QoQ and YoY (ex- Gold Finance portfolio of ₹1,530 crore), as it consciously slowed lending in segments with non-favourable risk-reward. While continued moderation is expected in rural finance, traction in gold and home loans, primarily to prime category customers is expected to aid growth momentum. For FY26, management expects 10–15% AUM growth in microfinance, 15–20% in two-wheelers, and 20–25% in AUM. Overall, credit growth is expected at ~23% in FY26-27E.
- **Asset quality to remain in focus; provision buffer aids comfort:** Credit cost remained elevated at 2.2% (3.4% - excluding ₹300 crore buffer). Increasing proportion of loans to prime segment and phased implementation of Project Cyclops is expected to limit slippages. Anticipated gradual improvement in collections in Karnataka (98.43% in June'25) and utilization of recoveries from stressed pool is seen to keep credit cost in a range.
- **Alteration in asset mix to impart margin volatility:** Gradual shift towards prime segment (personal loans, SME Finance and gold loans) is seen to provide stability, though impart some volatility in yields. Focus on gold loans and reduction in cost of funds could partially offset the pressure. Thus, medium-term RoA target of 2.8-3% appears distant, with management target of 2.4-2.5% for FY26, with further improvement expected as MFI segment stabilizes. With guidance for NIM + fee income at 10–10.5% range, we expect RoA at 2.3% in FY26E-27E.

Rating and Target Price

- Relative resilience, amid volatility in MFI segment, bodes well. Alteration in business mix, amid focus on sustainable and risk calibrated growth is expected to keep business growth steady and improve sustainability of performance.
- We revised target price to ₹250, valuing the stock at ~2x FY27E BV. Upgrade the stock from Hold to Buy.

Key Financial Summary

	FY23	FY24	FY25	2 year CAGR (FY23-FY25)	FY26E	FY27E	2 year CAGR (FY25-FY27E)
NII (₹ crore)	6368	7115	8047	12.4%	9023	10850	16.1%
Net Profit (₹ crore)	1623	2320	2644	27.6%	2981	3647	17.4%
EPS (₹)	6.5	9.3	10.6	27.2%	11.9	14.6	17.4%
P/E (x)	32.1	22.5	19.8		17.6	14.4	
P/BV (x)	2.4	2.2	2.0		1.9	1.7	
P/ABV (x)	2.6	2.3	2.1		1.9	1.7	
RoE (%)	7.5	9.9	10.3		10.6	11.7	
RoA (%)	1.5	2.3	2.2		2.1	2.1	

L&T Finance

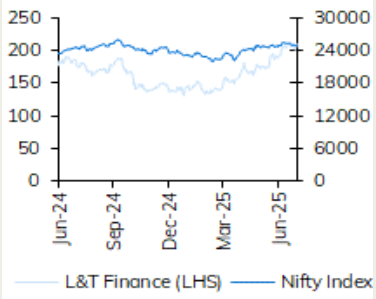
Particulars

Particulars	Amount
Market Capitalisation	₹ 51,740 crore
52 week H/L	213 / 129
Net worth	₹ 25,585 crore
Face Value	10.0
DII Holding (%)	14.1
FII Holding (%)	6.2

Shareholding pattern

(in %)	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	66.3	66.3	66.2	66.2
FII	6.7	5.3	5.5	6.2
DII	12.3	12.2	13.3	14.1
Others	14.7	16.3	15.0	13.6

Price Chart



Key risks

(i) Faster than anticipated recovery in MFI segment

(ii) Margin pressure owing to change in asset mix

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Result Update

ICICI Securities – Retail Equity Research

Source: Company, ICICI Direct Research

Con-call highlights and outlook

Business Update

- Loan Book Growth: Consolidated loan book surged to ₹1,02,314 crore (+15% YoY); retail book stood at ₹99,816 crore (+18% YoY).
- PAT for the quarter reached ₹701 crore, marking a 10% growth QoQ and 2% YoY. RoA improved 15 bps YoY to 2.37%.
- Retailization Drive: Retail asset share rose to 98%, surpassing the "Lakshya 2026" target of 95%.
- 5.5 lakh new customers added, with total customer base at ~2.6 crore.
- Retail disbursements stood at ₹17,522 crore (+18% YoY), with rural finance up 10% QoQ, supported by steadily improving collection efficiency and stronger disbursement momentum across geographies.
- Karnataka collections are gradually recovering; ₹ 300 crore, provisions utilized in Q1FY26, while Tamil Nadu legislation impact remains negligible.
- L&T Finance has successfully completed amalgamation of ~130 branches, 700 employees and 1,300 crore, portfolio of gold loans and plan to expand it into new geographies with 175 additional branches, targeting high - cross selling, aiming to reach 300 plus gold loan branches by FY26 end.
- Digital partnerships with Amazon Pay, Cred and PhonePe drove ₹ 651 crore, personal loan disbursement in Q1. ₹1,236 crore disbursements - life to date while keeping a strong focus on credit and risk guardrails.
- Project Cyclops AI/ML-based underwriting is now fully operational in Two-Wheelers (100% coverage), being extended to Farm Equipment, SME, and Personal Loans. Prime share of two-wheeler disbursement increased to 84% in June 2025 (from 53% in March 2024) with improved asset quality.
- Project Nostradamus Automated, AI-driven portfolio and risk management platform is on track for beta launch in September 2025 and an AI Innovations Beta launch of an in-house LLM-based SME underwriting co-pilot and new field sales apps for productivity is on track.

Guidance

- AUM growth targeted at 20-25%; 10-15% growth for MFI, 15-20% for 2-wheeler.
- FY26 NIM + Fee income guidance maintained at 10-10.5%.
- Asset Quality: GNPA/NNPA target of 3%/1%. Guided for overall credit costs in the range of 2.3-2.4%.
- ROA: Target of 2.4-2.5% for FY26 with medium term target of 2.8-3%; currently at 2.44%, with further improvement expected as MFI segment stabilizes.
- Project Nostradamus (beta launch in Q2FY26) to enable automated risk detection and portfolio monitoring.

Margin

- Q1FY26 NIM + Fee income at 10.22% vs 11.08 % YoY, impacted by disbursement mix and ₹55 crore, broken period interest reversal (as per RBI), partly offset by ₹35 crore one-off tax gain.
- Growth in personal loan segment continued to remain healthy. Gold loan segment to offset moderation in MFI book.
- Focus on improving operational efficiency through cost controls, productivity, and tech projects like Cyclops and Nostradamus.
- Strategy to increase proportion of prime loans underway – optical yield to decline though yield on a risk adjusted basis should remain steady with gradual improvement ahead.

Asset Quality

- Provisioning: Utilized ₹400 crore in macro-prudential provisions in FY25 (₹100 crore in Q3, ₹300 crore in Q4) amidst MFI stress (heatwaves, floods, elections). Provision buffer at ₹575 crore.

- Asset Quality: Gross Stage 3 (GS3) at 3.31%, Net Stage 3 (NS3) at 0.99%. GNPA/NNPA to be maintained at 3%/1%, with further improvement expected via higher prime customer share and Cyclops rollout.
- Regulatory Developments: Karnataka ordinance caused a temporary dip in Feb-25; gradual improvement in collections (20-30 bps every month) with stabilization seen to take another 3-4 months. Collection efficiency in Tamil Nadu and Bihar is stable.

Exhibit 1: Variance Analysis

	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	Comments
NII	2054	2020	1.7	1935	6.1	Flattish YoY growth amid slowdown in rural finance
NIM (%)	8.2%	9.3%	-107 bps	8.2%	9 bps	NIMs compressed YoY due to change in mix, but with a declining cost of fund, it is now stabilizing now
Other Income (Incl Fees)	493	383	28.7	477	3.4	
Total income	2547	2403	6.0	2412	5.6	
Operating expenses	1049	966	8.6	1004	4.5	
Operating income	1498	1437	4.2	1408	6.4	
Credit losses/ provisions	556	515	8.0	603	-7.8	Credit cost elevated owing to pain in MFI segment. Utilized ₹300 crore, macro-prudential provision
PBT	943	922	2.3	806	17.0	
Tax	242	236	2.5	170	42.4	
PAT	701	686	2.2	636	10.2	Marginal increase in PAT due to margin compression and higher credit costs
Key Metrics						
Loan Book	102314	88717	15.3	97762	4.7	AUM grew steadily, driven by acquisition of gold business despite challenges in rural finance

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Interest Earned	12,492.0	14,044.0	16,051.7	19,484.5
Interest Expended	5,377.0	5,997.0	7,028.3	8,634.0
Net Interest Income	7,115.0	8,047.0	9,023.4	10,850.5
growth (%)	11.7%	13.1%	12.1%	20.2%
Non Interest Income	1,609.0	1,740.0	2,001.0	2,341.2
Net Income	8,724.0	9,787.0	11,024.4	13,191.7
Opex	3,507.9	3,984.6	4,469.1	5,116.2
Operating Profit	5,216.1	5,802.4	6,555.3	8,075.5
Provisions	2,006.0	2,311.0	2,632.8	3,277.2
PBT	3,210.1	3,491.4	3,922.4	4,798.3
Taxes	715.1	847.4	941.4	1,151.6
Exceptional item	175.0	-	-	-
Net Profit	2,320.0	2,644.0	2,981.0	3,646.7
growth (%)	42.9%	14.0%	12.7%	22.3%
EPS (₹)	9.3	10.6	11.9	14.6

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Valuation				
No. of Equity Shares (Crores)	248.9	249.5	249.5	249.5
EPS (₹)	9.3	10.6	11.9	14.6
BV (₹)	94.2	102.5	113.1	125.0
ABV (₹)	89.4	99.8	109.3	120.7
P/E	22.5	19.8	17.6	14.4
P/BV	2.2	2.0	1.9	1.7
P/ABV	2.3	2.1	1.9	1.7
Yields & Margins (%)				
Net Interest Margins	8.6	8.8	8.3	8.0
Yield on assets	15.0	15.3	14.8	14.4
Avg. cost on borrowings	6.8	7.1	6.7	6.5
Quality and Efficiency (%)				
Cost to income ratio	40.2	40.7	40.5	38.8
Loan to borrowing (%)	106.3	101.7	96.1	95.9
GNPA	3.2	3.3	3.1	3.0
NNPA	0.8	1.0	0.9	0.9
RoE	9.9	10.3	10.6	11.7
RoA	2.3	2.2	2.1	2.1
RoAUM	2.8	2.9	2.7	2.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY24	FY25	FY26E	FY27E
Sources of Funds				
Capital	2489	2495	2495	2495
Reserves and Surplus	20950	23069	25713	28694
Networth	23438	25564	28208	31189
Borrowings	76541	92247	117089	147968
Other Liabilities & Provisions	26177	28160	23712	29109
Total	102718	120407	140801	177078
Application of Funds				
Fixed Assets	555	686	753	829
Investments	12385	11876	14367	18119
Advances	81359	93773	112539	141929
Other assets	21358	26634	28261	35149
Total	102718	120407	140801	177078

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY24	FY25	FY26E	FY27E
Total assets	-3.4%	17.2%	20.0%	20.0%
Advances	6.2%	14.3%	22.5%	26.1%
Net interest income	11.7%	13.1%	12.1%	20.2%
Operating expenses	11.7%	3.9%	8.1%	13.3%
Net profit	42.9%	14.0%	12.7%	22.3%
Net worth	8.9%	9.1%	11.7%	12.8%

Source: Company, ICICI Direct Research

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