ANANDRATHI

Change in Estimates ☑   Target ☑   Reco ☐

L&T Finance

Tech intensity increasing; Correction offers attractive entry point

Rating: Buy
Target Price (12-mth): Rs.204
Current market price: Rs.136

Led by initiatives driven by the new MD, Sudipto Roy, LTFH is closing the gap with BAF in its technology interface. While the focus continues on the MFI book, LTFH is now a diversified financier. Management has displayed strong underwriting skills and collection processes. It is uniquely placed to deliver both consistent growth and high RoA, given its deep tech and increasing penetration. At our TP, the stock would trade at 1.5x FY27e P/BV (earlier 1.9x FY26e BV), for a ~2.5% RoA. Recent stock drops offer attractive entry points in an NBFC with high-calibre management, many legs of growth and 2.5% RoA.

Kaitav Shah, CFA | Research Analyst   Yuvraj Choudhary, CFA | Research Analyst

Key data	LTF IN / LTFL.BO
52-week high / low	Rs194 / 134
Sensex / Nifty	78248 / 23645
3-m average volume	$15.7m
Market cap	Rs344bn / $4023m
Shares outstanding	2494m

Shareholding (%)	Sep'24	Jun'24	Mar'24
Promoters	66.3	66.4	65.9
- of which, Pledged			
Free float	33.7	33.6	34.1
- Foreign institutions	6.7	7.3	11.1
- Domestic institution	12.3	11.6	8.7
- Public	14.7	14.7	14.4

Estimates revision (%)	FY25e	FY26e
NII	(5.9)	(9.9)
PPoP	(6.6)	(9.4)
PAT	(8.0)	(7.6)

Investment Summary

Summary

Led by initiatives driven by the new MD, Sudipto Roy, LTFH is closing the gap with BAF in its technology interface. While the focus continues on the MFI book, LTFH is now a diversified financier. Management has displayed strong underwriting skills and collection processes. It is uniquely placed to deliver both consistent growth and high RoA, given its deep tech and increasing penetration. At our TP, the stock would trade at 1.5x FY27e P/BV (earlier 1.9x FY26e BV), for a ~2.5% RoA. Recent stock drops offer attractive entry points in an NBFC with high-calibre management, many legs of growth and 2.5% RoA.

High-calibre management driving product penetration

Led by a seasoned and high-calibre management team, LTFH excels in driving product penetration across urban and rural markets. The team's focus on a) levering technology for seamless operations, b) expanding strategic partnerships with fintechs and OEMs, and c) targeting prime customer segments has enabled robust growth, strong risk controls and superior portfolio performance. We pencil in 17% AUM growth CAGR from FY25-27e.

Technology leapfrog to aid credit quality

Under the leadership of the new MD, Sudipro Roy, LTFH is focused on developing future-ready technology. It is enhancing operational efficiency through AI/ML-driven initiatives such as Project Cyclops for real-time credit underwriting and Project Nostradamus for predictive risk management. The adoption of automation and AI has notably reduced turnaround times.

Sound asset quality, MFI pain contained

Sound asset quality (Q2 FY25 GS3 at 3.19%, NS3 at 0.8%), driven by conservative underwriting and focus on low-risk segments. Within MFI, the proportion of the book with more than three lenders is Rs13bn. This will be provided for in FY25, with slight impact on earnings. A strong portfolio is maintained by reducing high-leverage exposure and focusing on low indebtedness customers (69% with 0-1 association), ensuring disciplined risk management and asset quality.

Investment Summary

Valuation

We pencil in a healthy 17% AUM CAGR over FY24-27 driving the PPoP growth. We reiterate a BUY with a TP of Rs204, at which the stock would trade at 1.5x FY27e P/BV, for ~2.5% RoA. It now quotes at 1.1x FY27e BV, unadjusted for the buffer

Key risks

- More-than-anticipated delinquencies in the MFI book
- General slowdown in economic activity could hamper growth

Y/E March (Rs m)	FY23	FY24	FY25e	FY26e	FY27e
Net interest income	67,679	75,367	89,537	1,02,026	1,17,876
PPoP	36,909	43,514	55,140	63,774	74,582
Provisions	15,602	13,224	21,042	22,438	25,215
PAT	(7,289)	53,462	25,573	31,002	37,025
EPS (Rs.)	8	9	10	12	15
NIM (%)	8.0	9.1	9.7	9.5	9.3
Cost to Income	50.8	49.9	47.0	46.9	46.7
RoA (%)	1.8	2.2	2.3	2.5	2.5
RoE (%)	9.4	10.3	10.3	11.3	12.0
AUM Growth (%)	(8.4)	5.8	20.7	23.1	24.8
GNPA (%)	4.7	3.2	3.4	3.7	3.6
CRAR	24.5	22.8	21.9	21.6	20.8
P/E (x)	18.1	15.4	13.9	11.5	9.6
P/BV (x)	1.6	1.5	1.4	1.2	1.1
P/ABV (x)	83.5	92.3	102.2	114.2	128.6

FY25e	Bear Case	Base Case	Bull case
Loan CAGR, % (FY23-26)	10	18	27
BVPS (FY27), Rs	116	132	144
PBV (multiple), x	2.5	4.7	5.8
Catalyst	a. Lower loan growth because of keen competition b. Higher credit cost led by unsecured lending		a. Unsecured lending growth scales up faster. b. Yields will move up faster

Source: Company, Anand Rathi Research

Executive Summary

L&T Finance is undergoing a strategic transformation, levering cutting-edge technology, and has transitioned into a retail-focused NBFC. Key initiatives include:

Digital-first approach
- Launch of PLANET app and AI-driven platforms like Project Cyclops for underwriting and Project Nostradamus for risk prediction

Operational efficiency
- Enhanced digital disbursements, 100% paperless onboarding and improved collection process

Business growth
- 96% retailisation, 104% y/y PAT growth, and robust credit performance parameters

Future vision
- Targeting 2x book size in 3-4 years with sustained RoA (2.8–3%) through digital integration

Business transformation overview (milestones)

Strategic shift to retailisation

- Retail portfolio now constitutes 96% of the total book, compared to 51% in Q4 FY22
- SME loans: 2.92x growth, disbursements rose from Rs5.3bn to Rs156.5bn in the last 18 months
- Home loans + LAP grew 1.54x, reflecting increasing traction in the prime and prime-plus segments
- Farmer finance: Maintains a leading position as one of India's largest tractor financiers

Balanced urban and rural expansion

- Urban portfolio: Built a Rs420bn urban book through 100% digital on-boarding processes
- Rural franchise: Reached 0.2m villages, serving 16m rural customers, with significant growth in microfinance disbursement

Technology-driven efficiency gains

- PLANET app: Added ~13m users, contributing Rs11.7bn in collections in H1 FY25, up 38x from H1 FY23
- AI-backed tools like Project Cyclops have scaled daily transaction capacity from 8,000 to 200,000+ hits, reducing delinquency rates

Operational achievements

- Distribution network: Over 13,200 physical touchpoints, supported by 28,000+ partner channels and 34,000 employees
- Credit performance: Reduced GS3 ratio to 3.19% (an 89bp improvement) and NS3 ratio to 0.96% (a 102bp improvement)

Technology framework

Technology framework

Learning Layer (optimisation)

The Learning Layer uses AI/ML models to improve decision-making and operational efficiency. This continuous optimisation refines underwriting processes, predicts customer behaviour and reduces operational costs, helping L&T Finance stay competitive with more accurate and efficient credit decisions

Portfolio Layer (processing)

This layer analyses data to segment customers and assesses credit risk, delivering personalised products. By providing tailored services, L&T Finance enhances customer satisfaction and loyalty, optimising credit management and increasing cross-selling opportunities—ultimately driving stronger revenue growth

Acquisition Layer (foundation)

The Acquisition Layer gathers data from touchpoints like branches, the PLANET app and external platforms, ensuring paperless on-boarding. This streamlined process allows L&T Finance to rapidly expand its digital customer base, outpacing traditional players and enabling scalable growth with faster customer acquisition

Planet App – digital engagement

PLANET App is a digital platform that enables paperless loan management, EMI payments and personalised financial tools. It enhances customer experience through seamless, real-time services and self-service capabilities

Loan management

Comprehensive loan management system offering customers seamless EMI payments, part-payments, transaction history access, and real-time notifications

Financial tools

Empowers users with tools like EMI calculators, credit-score checks, and ITR filing for enhanced financial literacy and planning

Personalised offers

AI-driven personalisation providing real-time product recommendations tailored to user needs and financial behaviour

- 6.6x increase from H1 FY23 to H1 FY25 (~13m users)

- 38x growth, Rs11.7bn processed in H1 FY25

User growth

Collections growth

Efficiency gains

Digital penetration

- EMI adjustment time reduced from 10 minutes to three seconds

- 80% collections happen digitally now

AI-powered underwriting engine: Project Cyclops

Project Cyclops is an AI-powered underwriting engine that enhances L&T Finance's credit evaluation process, using advanced machine learning and alternative data for faster, more accurate loan approvals and improved risk management

AI-driven underwriting ➡ Real-time decision-making ➡ Risk profiling / Approval

Key features

Data integration

- Levers 2,500+ data points, satellite imagery and digital footprints

Scalable and Efficient

- Processes 200,000+ data points per day, reducing the decision time

AI-driven underwriting

- Refines credit decisions with real-time machine-learning

Impact

Faster loan approval

- Near-instant credit decisions reduce TAT and increase approval rates using alternative data

Improved portfolio quality

- AI-based profiling minimises delinquencies and ensures a healthier loan book

Cost efficiency

- Automation lowers operational costs while scaling up loan volumes effectively

Strategic advantage

First-mover advantage in AI-driven lending

Scalable growth model

Synergistic ecosystem integration

Sustainable lending practices

Predictive risk management with Project Nostradamus

Project Nostradamus is an advanced AI-driven risk management platform that uses predictive analytics to enhance portfolio health. It helps L&T Finance manage risks through early detection and a stress-scenario analysis

Key features

Comprehensive risk simulation
- Models stress scenarios across economic, geographic and sectoral factors to assess portfolio resilience

Early warning systems
- Monitor payment behaviour to flag high-risk accounts for proactive intervention

Portfolio heat mapping
- Visualises risk concentrations by regions and customer segment, enabling targeted action

Data integration
- Combines historical, real-time and alternative data to enhance predictive accuracy

Operational benefits

Proactive risk mitigation
- Reduces NPAs by allowing early intervention at risk accounts
- Improves recovery rates by pre-empting default scenarios

Efficient resource allocation
- Prioritises high - risk accounts for immediate action, optimising collection efforts
- Allows targeted customer engagement, enhancing recovery potential

Rural business finance

Strengthened credit guardrails and tech-driven collections ensuring portfolio resilience in a challenging environment

Growth moderation

Disbursements slowed from Rs19.24bn in Jul'24 to Rs14.9bn in Oct'24, showcasing a disciplined strategy aligned with branch-level collection thresholds

Portfolio strength and credit guardrails

31%

69%
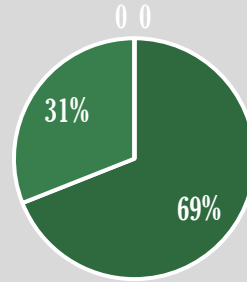
69% of portfolio with 0 or 1 external association; high-leverage customers reduced from Rs17.38bn (Jun'24) to Rs12.51bn (Oct'24)

Portfolio distribution

Implemented risk guardrails based on bureau data, ensuring that ~87% of the portfolio consists of customers with ≤2 external associations, and ~95% aligns with MFIN norms, reflecting prudent sourcing and monitoring practices

Chart categories: LTF, LTF + 1, LTF + 2, LTF + 3, LTF + 4, LTF + 5, LTF + 6, >LTF + 6

Legend: Jun'24, Sept'24, Oct'24
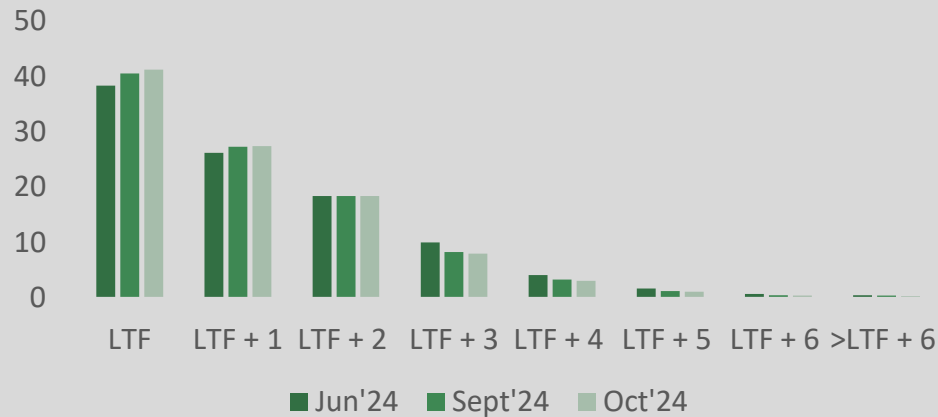
Field improvements

APC reduced from 540 to 490; attrition reduced by 17% (Aug-Oct'24)

Improved salary, incentive structures, and 7-layer vertical structure with experienced supervisors (avg 5 years)

Collection efficiency

30+ DPD collection efficiency at 99.3% (Oct'24), 0-90 DPD at 98.1%. Temporary increase in delinquencies due to heavy rains, political disruptions and election-related fund-flow issues

Chart axis: Jul'24, Aug'24, Sept'24, Oct'24

Legend: 0 DPD CE %, 0-90 DPD CE %
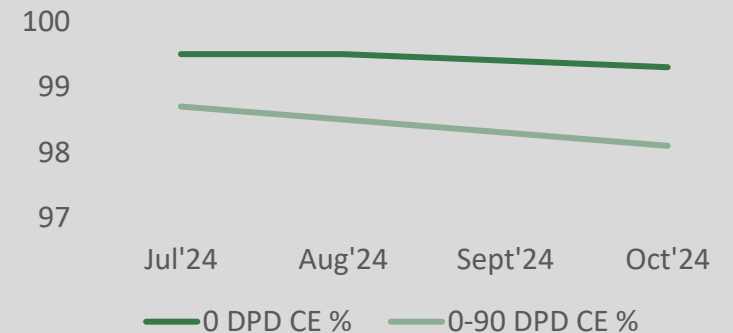
Farmer finance

Prominent tractor financier in India, supported by strong partnerships with major tractor OEMs such as Mahindra Swaraj, John Deere and TAFE

Overview

Farmer finance has a ~Rs150bn AUM, serving over 0.11m customers (of which, 0.4m are active) across 16 states

Healthy disbursements with strong digital collections contributing to efficient loan servicing

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15% digital collections, 99.5% CE (Oct'24). 95%+ ODD collections

54% e-NACH penetration automates collections, simplifying repayments for customers

QR-based collections enable seamless mobile payments

Technological interventions

Digital customer journey	Digital loan journey via Planet app; AI sanctioning loans in minutes
AI and ML for risk management	Project Cyclops uses satellite data and behaviour analytics for precise credit decisions
Geospatial tech and Digital collections	Geo-tagging and route mapping enable optimised collections and 25% digital penetration
Future plans	AI-powered profiling and fraud detection to expand products post-FY25
Process Automation	100+ RPA-driven processes and OCR tools improve TAT and reduce risks

Future Plans

Micro loans and warehouse receipt financing for working capital and seasonal support

Deeper penetration by partnerships with FPOs and local cooperatives

Credit assessments based on crop cycles and climatic conditions

Drone-based crop monitoring and dynamic risk-based loans in partnership with agri-tech firms

Urban business finance

Strengthened credit guardrails and tech-driven collections ensuring portfolio resilience in a challenging environment

Growth

Disbursements show a 40% CAGR (FY21-24), while AUM registered a 25% CAGR (FY21-24) to Rs360bn in FY24 and Rs415bn in H1 FY25

Portfolio strength and Credit guardrails

PL 17%

HL + LAP 52%

2W 31%
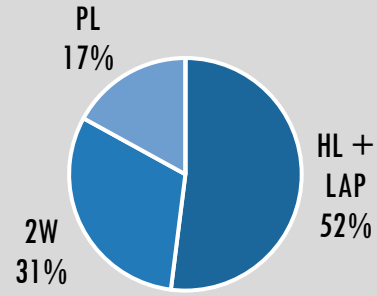
25% AUM CAGR overFY21-24, to Rs415bn in H1 FY25, with home loans and LAP constituting 52% of the book

Product-wise details

H1 FY25 (avg.)	2W	PL	HL + LAP
Customers (m)	7.99	0.9	0.08
Yield range , %	14-20	14-20	9-11
Avg. tenure (months)	28	34	72
0 DPD CE, %	98.1	98.3	99.6
Branches	125+	Subset of TW	40+

Asset quality

- GS3 down to 2.9% in H1 FY25 from 3.8% in FY21

- NS3 at 0.8% and PCR at 72% for H1 FY25

AUM

The book has shown a consistent >25% CAGR from FY21-24

(Rs m)

FY21	1,83,560
FY22	2,04,280
FY23	2,78,410
FY24	3,60,890
H1FY25	4,15,780
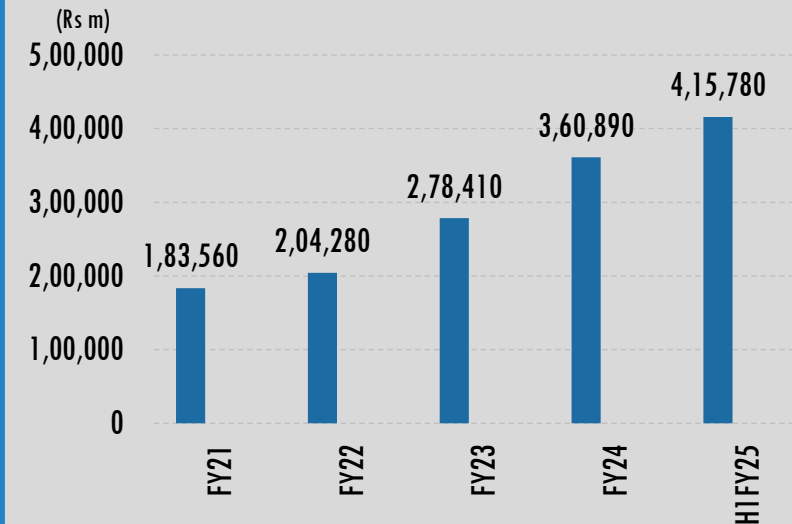
Two-wheeler finance

Transforming two-wheeler financing with a fully digital onboarding journey, AI-powered credit decisioning and advanced geo-spatial technologies.
Levering automation and predictive analytics, the company ensures seamless customer experiences, faster disbursements and improved risk management

Comprehensive digital ecosystem

100% digital business with no manual underwriting via the Planet app

AI-backed underwriting evaluating creditworthiness real-time, enabling loan approvals in under two minutes

Geo-tagging optimises collection routes, enhancing resource use

QR payments and 54% e-Nach penetration streamline payments

Monitoring collections and agent performance via a central dashboard

Automation and Operational efficiency

RPA-driven processes
Automation of repetitive tasks like loan-document validation, KYC and repayment updates

OCR verification
Advanced optical character-recognition ensures faster and accurate verification of uploaded customer documents

Dynamic workflow management
Optimising loan approval workflows, reducing TAT for disbursements to fewer than 24 hours

Customer-centric focus

125+ urban and semi-urban branches for diversified customer needs

Customisable tenures ranging from 28 to 34 months, with competitive yields of 14-20%

Features like pre-approved loans and EMI payments helping in easy management of customers' loan accounts

Financial literacy programs to enhance customer understanding of products

Personal loans

Personal loans provide flexible, unsecured financing for a wide range of personal needs, with fast approvals and customisable repayment terms. Levering AI-driven credit assessments and digital platforms, L&T Finance ensures a seamless, customer-centric experience

Sourcing and distribution channels

Paperless applications and instant credit decisions via the PLANET app

Loans sourced through online channels, field agents and partnerships with consumer goods retailers

Customer profile

- 23% Premium
- 35% Premium plus
- 42% Super premium
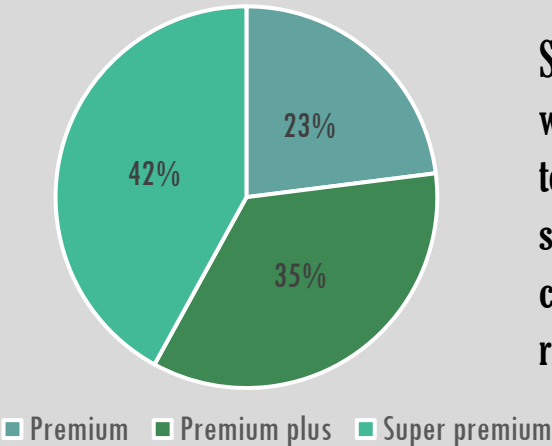
Super premium customers who make up 42% of the total, enable focus on up-selling to premium customers and minimising risk exposure

Technology interventions enhancing customer experience

AI-powered personalisation	ML algorithms assess individual behaviour and preferences to tailor products
Mobile app enhancement	Real-time loan tracking, easy EMI payments and personalised financial management tools
Customer service automation	AI -based chatbots and virtual assistant for 24x7 support, quick query resolution

Robust risk management and Asset quality

AI models predicting the likelihood of defaults using social behaviour, transaction data and geo-location signals

Risk segmentation strategies, such as lower delinquency rates, ensure a stronger portfolio

Integration if ML for fraud detection ensuring data security

Outlook

- Leverage AI -driven insights to broaden customer base in untapped rural and urban spaces
- Enhance customer targeting using ML models
- Deploying automated fraud-detection systems

Home loans + LAP

Tailored financing with a fully digital process, ensuring seamless eligibility checks and quick sanctions. Designed for both salaried and self-employed individuals, these products meet diverse financial needs with speed and precision

Overview

Steady disbursement growth (HL 8.2%, LAP 25.7% q/q; 57% y/y) with a strategic focus on digital and branch-led sourcing

TAT improved to 4-7 days, supported by streamlined digital processes

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AI-powered underwriting ensures faster approvals

A fully digitalised loan journey, like e-sign, KYC automation and document uploads

KAI AI chatbot for loan queries, EMI calculator and personalized offers

AI and automation driving efficiency

Automated over 100 processes using RPS, thereby reducing manual tasks

Expanded digital platforms to seven servicing options and 200 engagement journeys, across seven languages

AI driven insights optimize workflows and enhance customer satisfaction

Portfolio diversification

- Focused diversification across customer segments (salaried, self-employed) and regions to minimize concentration risk
- Urban and semi-urban borrowers constitute a significant portion of the portfolio, ensuring better credit performance

SME finance

Demonstrates robust growth with disbursements scaling up to Rs51.9bn by Sep'24, driven by a technology-first approach. Advanced AI, real-time APIs and predictive analytics ensure efficiency, risk mitigation and customer-centricity

Business highlights

Disbursements grew from Rs640m in Phase 1 (Oct'21–Jun'22) to Rs51.9bn in Sep'24

Average yields at 16.2%, with an average tenure of 42 months

Technology-driven operations

AI – Powered Decisioning	AI models evaluate creditworthiness, enabling quick decisions and reducing delinquencies
API-enabled credit process	Ensuring that credit processes are compliant with risk guardrails
Phygital model	A combination of branch-led and digital tools enable seamless customer profiling and risk management

Risk management

Stringent underwriting protocols with real-time data integration

Focus on stable portfolios with risk-adjusted pricing models

Strategic growth phases

Phase 1 (pilot)
- Locations: 2, Manpower 15
- Established foundational and credit-tech framework
- Book size: Rs640m

Phase 2 (Jul'22–Apr'23)
- Locations:17, Manpower 161
- Expanded geographical and product offerings
- Book size: Rs14.67bn

Phase 3 (Dec'23–Sep'24)
- Locations: 110+, Manpower: 394
- Integration with advanced digital platforms
- Book size: Rs51.9bn

Customer-centric approach

- Tailored products catering to varied SME segments
- Seamless onboarding with reduced TAT

Leveraging technology for growth

Continued digital transformation

Expansion of omni-channel platforms:
Strengthen the PLANET app with advanced features like
 i. Personal finance management (to launch Jan'25)
ii. AI-driven hyper personalisation for rural and urban customer needs

Strengthening customer intelligence

Alternative data integration — lever geo-tagging, satellite data and video KYC for better profiling

Identify and nurture early-stage customers using lifestyle and psychometric modeling

Secure and agile infrastructure

Zero-trust security architecture: teal -time threat detection and data protection using AI/ML

AI analytics to eliminate customer bottlenecks across branches, call centres and digital channels

Aspirations for FY26

2x retail book size with consistent growth trajectory (20-25% CAGR)

Sustainable RoA of 2-8–3% with stable credit costs

Geo-expansion across India through low-cost digital acquisition

AI- and data-driven credit solutions

Project Cyclops

Scale: 200,000 hits/day (previously 8,000)
Outcome: Higher approval rates, optimised RoA and reduced credit costs

Project Nostradamus

AI-powered risk-management engine for predictive delinquency tracking (live in Q2 FY26)

Key Management

Name	Position	Background
Sudipta Roy	Managing Director, CEO	Seasoned consumer banking and payments professional, brings over 24 years' experience in financial services. Held leadership roles at ICICI Bank, Citibank and Deutsche Bank, managing diverse domains like unsecured lending, cards and payments. With expertise across India, China and Canada, has built greenfield lending and payments businesses globally. Recognized among India's top fintech and digital finance influencers, he frequently speaks on retail lending, payments, and risk management. An IIT Kharagpur chemical engineer and XLRI MBA, he has contributed to the RBI and government committees on banking security and payment systems
R. Shankar Raman	Non-Executive Director	A Chartered and Cost Accountant with 40 years' experience. With the L&T Group since 1994, as CFO and Board Member of L&T since 2011. Oversees finance functions including risk management, M&A and legal; has received many accolades, including Lifetime Achievement Award in Finance. Involved in advisory roles with IBBI, SEBI and CII on corporate finance and insolvency matters
Sachinn Joshi	CFO	A Chartered and Cost Accountant with over 34 years' experience; oversees finance, Treasury, risk and strategy. Held leadership roles at Aditya Birla Finance, the Angel Group and IL&FS, with expertise in business setup, crisis management and public listings
Raju Dodti	COO	Bings over two decades' experience in business transformation, legal expertise,and leadership across BFSI companies. A law graduate from the Government Law College, he is on many boards and is passionate about music, travel, and fitness.
Santosh B Parab	General counsel	Has over 28 years' expertise in legal and compliance, including M&A, Treasury, equity raising and litigation. A law postgraduate from Mumbai University, he has held key roles at IDBI, IDFC and Altico Capital, contributing to major organizational milestones

Source: Company, Anand Rathi Research

Quarterly charts

- Curtailed disbursement growth on account of restricted growth in the MFI portfolio to reduce LTF+2 and further MFI Book.

- Building a strong capital adequacy excluding the buffer for MFI.

- Consistent AUM growth; we pencil in a ~17% AUM CAGR over the next 3 years.

Strong capital adequacy ,excluding buffer

CRAR values: 22.7%, 23.5%, 24.5%, 25.8%, 25.2%, 24.9%, 22.8%, 22.1%, 22.2%

Tier 1 values: 19.9%, 20.6%, 22.1%, 23.4%, 23.0%, 22.8%, 21.0%, 20.4%, 20.5%

Quarters: 2QFY23, 3QFY23, 4QFY23, 1QFY24, 2QFY24, 3QFY24, 4QFY24, 1QFY25, 2QFY25

— CRAR — Tier 1

Measured costs - improving productivity

Cost to assets (AUM on Dupont) calculated: 3.1, 3.3, 3.7, 3.9, 4.4, 4.4, 4.7, 4.4, 4.2

Cost to Income: 38%, 37%, 40%, 39%, 40%, 40%, 42%, 40%, 38%

Quarters: 2QFY23, 3QFY23, 4QFY23, 1QFY24, 2QFY24, 3QFY24, 4QFY24, 1QFY25, 2QFY25

■ Cost to Income — Cost to assets(AUM on Dupont) calculated

Efforts to monitor and control MFI book

AUM Growth: 3.6%, 3.4%, -8.4%, -10.8%, -12.6%, -7.5%, 5.8%, 12.9%, 18.1%

Disbursement growth: 50.6%, 32.8%, -16.4%, 18.2%, 24.0%, 13.0%, 24.8%, 21.5%, 10.7%

Quarters: 2QFY23, 3QFY23, 4QFY23, 1QFY24, 2QFY24, 3QFY24, 4QFY24, 1QFY25, 2QFY25

■ AUM Growth ■ Disbursement growth

Quarterly charts

Rangebound NIM and CoF growth

Legend: Nim, Cof

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Cof	6.9%	7.0%	6.8%	6.9%	7.0%	7.1%	7.0%	6.9%	7.1%
Nim	6.9%	7.4%	7.6%	8.1%	8.6%	9.0%	9.1%	9.3%	8.9%

GS3 and NS3 book on a consistent decline

GS3: 4.0%, 4.2%, 4.7%, 4.0%, 3.3%, 3.2%, 3.2%, 3.1%, 3.2%
NS3: 1.9%, 1.7%, 1.5%, 1.2%, 0.8%, 0.8%, 0.8%, 0.8%, 1.0%

Legend: GS3, NS3
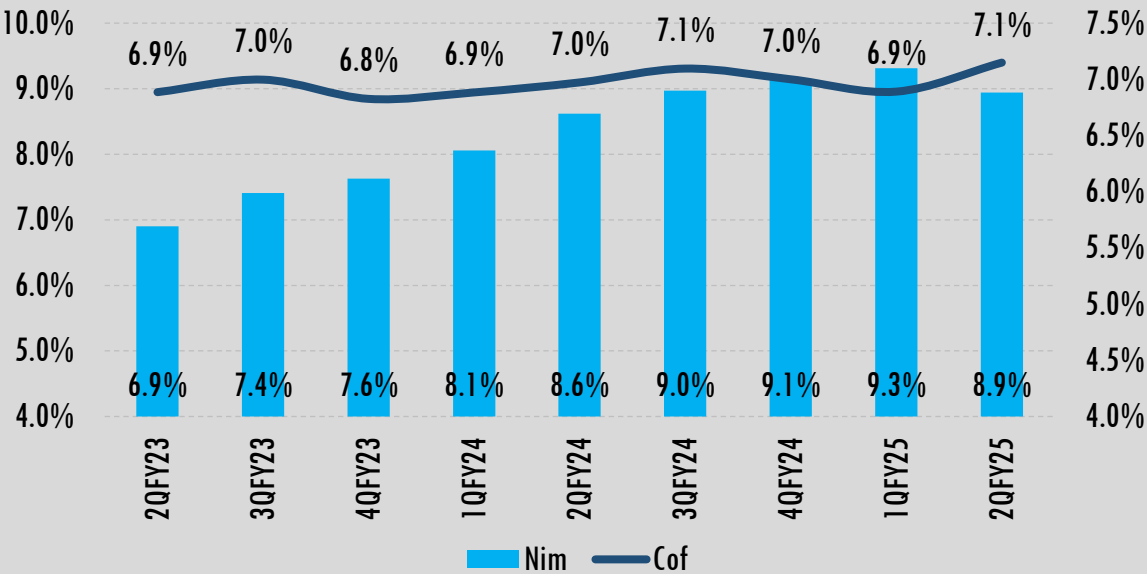
Retail book driving growth

Legend:
- Farm Equipment
- Rural Business Loans & Micro Finance Loans
- Home Loans
- SME Finance
- 2W Finance
- Consumer Loans
- LAP
- Acquired Portfolio

Valuation and Risks
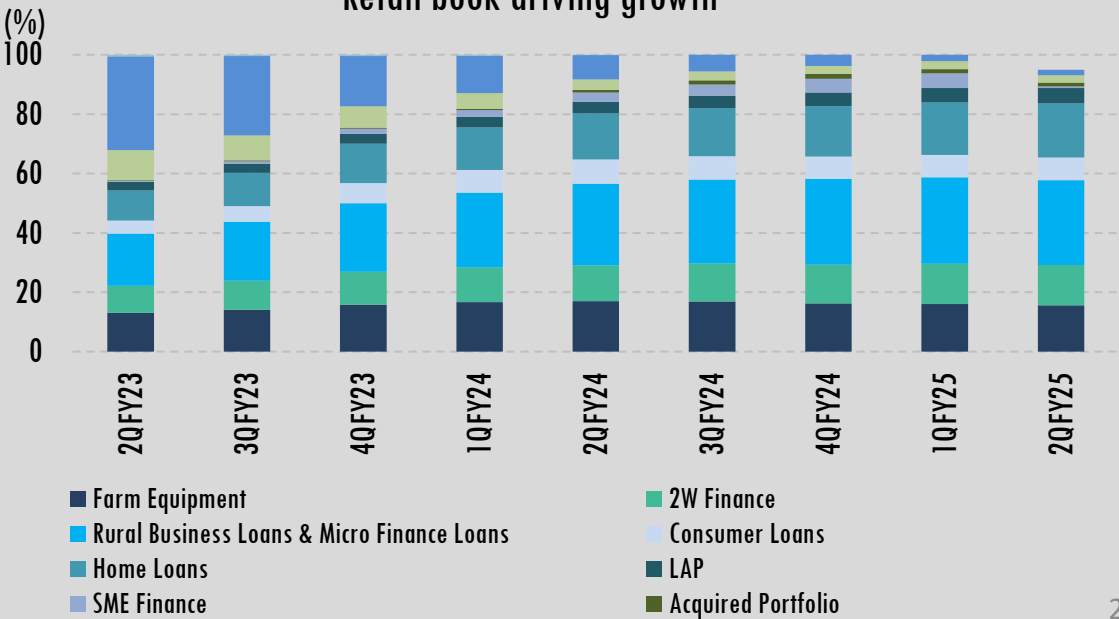
Key assumptions

- We reduce our FY25e/FY26e growth on lower growth in the rural finance book. Other businesses will continue to drive overall AUM growth to 18%

- We expect management to dip into its buffer for MFI book at Rs9.5bn, partially in H2 FY25. This will curtail any impact on overall profitability

Key risks

- Higher-than-expected delinquencies in the MFI business

- Any slowdown in economic activity could curtail credit growth

Valuations

- We value the NBFC at 1.5x FY27e BV, based on the multi-stage DDM model. The stock has dropped significantly in the last quarter. We expect MFI heardwinds to blow over in H2 FY25 and drive a structural re-rating in the NBFC.

Source: Bloomberg, Anand Rathi Research

Financials

Income statement (Rs m)	FY23	FY24	FY25e	FY26e	FY27e
Net Interest Income	67,679	75,367	89,537	1,02,026	1,17,876
growth (%)	13.7	11.4	18.8	13.9	15.5
Non Interest Income	7,366	11,412	14,493	17,971	21,925
Total income	**75,045**	**86,779**	**1,04,305**	**1,25,925**	**1,44,832**
Total Inc growth (%)	14.2	15.6	19.9	15.3	16.5
Operating expenses	38,136	43,265	48,890	56,223	65,219
of which employee benefit expenses	14,059	18,064	23,483	29,823	37,577
PPOP	**36,909**	**43,514**	**55,140**	**63,774**	**74,582**
PPOP growth (%)	25.9	17.9	26.7	15.7	16.9
Provisions	15,602	13,224	21,042	22,438	25,215
PBT	**(5,565)**	**60,581**	**34,097**	**41,336**	**49,367**
Tax	1,724	7,119	8,524	10,334	12,342
PAT*	**(7,289)**	**53,462**	**25,573**	**31,002**	**37,025**
PAT growth (%)	(185.8)	(833.5)	(52.2)	21.2	19.4

Balance sheet (Rs m)	FY23	FY24	FY25e	FY26e	FY27e
Share Capital	24,797	24,889	24,889	24,889	24,889
Other Equity	1,90,487	2,09,495	2,35,068	2,66,070	3,03,095
Net Worth	**2,15,284**	**2,34,384**	**2,59,957**	**2,90,959**	**3,27,985**
Borrowings	8,30,435	7,65,409	8,80,220	10,12,253	12,14,704
Growth (%)	(3)	(8)	15	15	20
Other liabilities	17,903	27,382	30,031	32,945	36,150
Total Liabilities	**10,63,621**	**10,27,176**	**11,70,209**	**13,36,157**	**15,78,838**
Cash & Cash Equivalents	1,27,489	46,760	53,275	47,636	74,325
Investments	1,43,662	1,23,849	1,30,041	1,36,543	1,43,371
Advances	7,51,546	8,13,594	9,39,934	10,99,875	13,01,517
Growth (%)	(8.9)	8.3	18.0	20.0	20.0
Other assets	40,925	42,973	46,958	52,102	59,625
Total Assets	**10,63,621**	**10,27,176**	**11,70,209**	**13,36,157**	**15,78,838**
AUM	**8,08,930**	**8,55,650**	**9,89,404**	**11,56,546**	**13,68,577**

Source: Company, Anand Rathi Research

Key Ratios

Key Ratios (%)	FY23	FY24	FY25e	FY26e	FY27e
NIMs(%)	8.0	9.1	9.7	9.5	9.3
Cost to Income (%)	50.8	49.9	47.0	46.9	46.7
Credit Cost (%)	2.0	1.7	2.4	2.2	2.1
ROA (%)	1.8	2.2	2.3	2.5	2.5
ROE(%)	9.4	10.3	10.3	11.3	12.0
GNPA (%)	4.7	3.2	3.4	3.7	3.6
NNPA (%)	1.5	0.8	1.0	1.3	1.6
CRAR (%)	24.5	22.8	21.9	21.6	20.8
Tier 1(%)	22.1	21.0	19.8	19.6	18.9
EPS (Rs)	7.9	9.3	10.3	12.5	14.9
BVPS (Rs)	86.8	94.2	104.4	116.9	131.8
ABVPS (Rs)	83.5	92.3	102.2	114.2	128.6
Dividend Yield(%)	1.4	1.4	0.6	0.6	0.6
P/E (x)	18.1	15.4	13.9	11.5	9.6
P/B (x)	1.6	1.5	1.4	1.2	1.1
P/ABV (x)	83.5	92.3	102.2	114.2	128.6

Du Pont Analysis (%)	FY23	FY24	FY25e	FY26e	FY27e
Interest Income	11.8	12.4	13.3	13.3	13.3
Interest Expense	5.4	5.1	5.2	5.2	5.2
Net interest income	**6.3**	**7.2**	**8.1**	**8.1**	**8.1**
Other Income	0.7	1.1	1.3	1.4	1.5
Total income	**7.0**	**8.3**	**9.5**	**9.6**	**9.6**
Operating expenses	3.6	4.1	4.4	4.5	4.5
PPOP	**3.5**	**4.2**	**5.0**	**5.1**	**5.1**
Provisions	1.5	1.3	1.9	1.8	1.7
Tax	0.2	0.7	0.8	0.8	0.8
ROA	**1.8**	**2.2**	**2.3**	**2.5**	**2.5**
ROE	**9.4**	**10.3**	**10.3**	**11.3**	**12.0**

Source: Company, Anand Rathi Research

Valuation charts – One-year forward

PB Chart- 1year forward
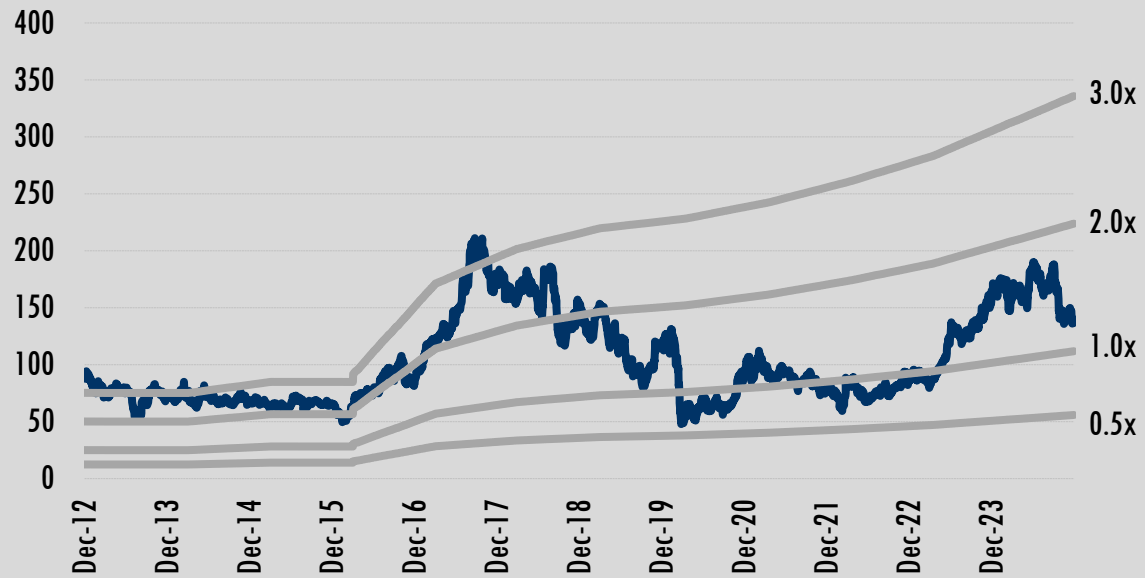
PB Standard Deviation- 1year forward
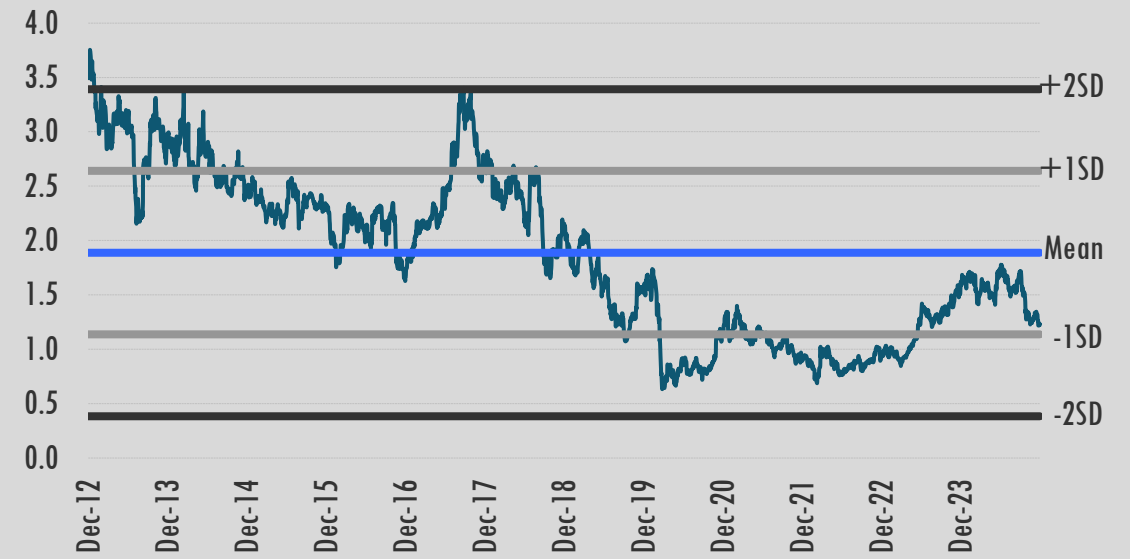
Relative price performance

LTF ▬ Sensex

Source: Bloomberg, Anand Rathi Research
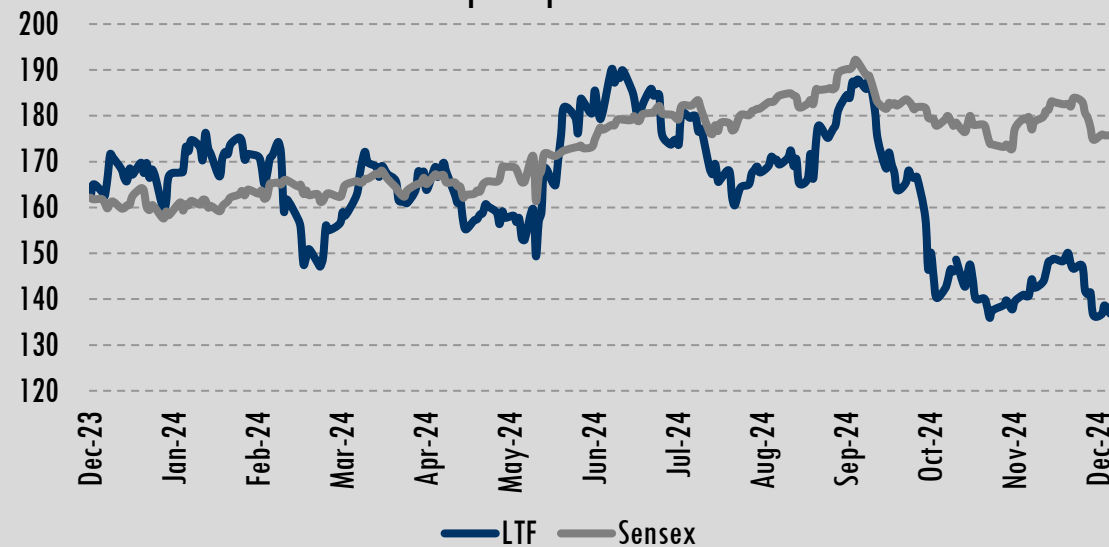
Appendix

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Important Disclosures on subject companies: Rating and Target Price History (as of 27 December 2024)

L&T Finance

	Date	Rating	TP (Rs)	Share Price (Rs)
1	5-Dec-22	Buy	106	91
2	20-Jul-23	Buy	160	131
3	23-Oct-23	Buy	165	133
4	24-Jan-24	Buy	190	162
5	29-Apr-24	Buy	205	169
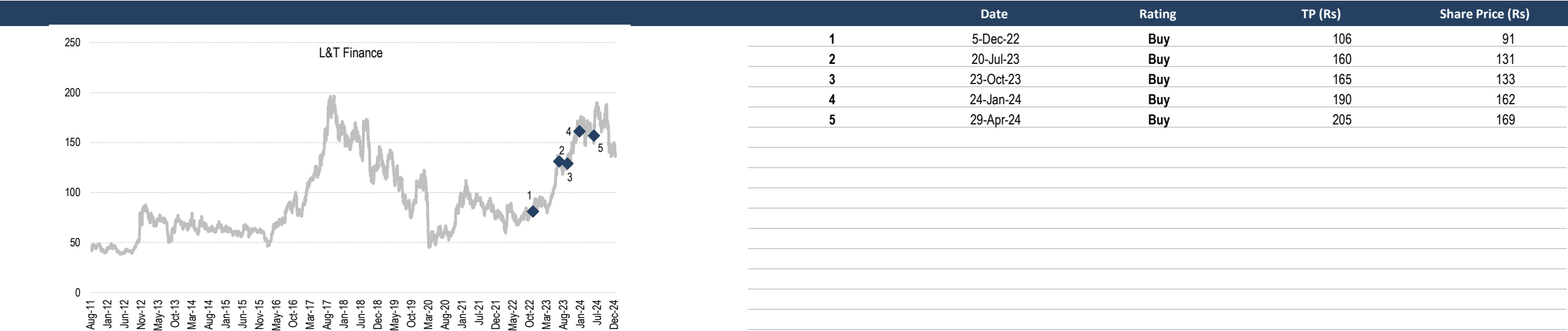
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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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