

Digital core, retail scale, and earnings acceleration to drive a re-rating

Execution-led retail scaling to drive sustained earnings growth and return expansion

We met with the senior management team of L&T Finance (LTF), represented by Mr. Sudipta Roy (MD & CEO) and Mr. Sachinn Joshi (CFO), to discuss the company's future business trajectory and the strategic roadmap. Following are the key takeaways from the interaction.

Structural transformation underway; strong visibility on growth and profitability

- LTF is undergoing a structural transformation into a high-quality, retail-focused, and technology-led NBFC, with strong visibility on growth, improving asset quality, and sustainable profitability. The company continues to sharpen its focus on granular retail segments, supported by disciplined underwriting and improved customer selection.
- Strategy is centered on deepening execution within existing businesses while selectively building adjacencies, supported by investments in AI, data science, cross-sell capabilities, and distribution. Early signs of improvement are visible in customer quality, portfolio mix, and the earnings trajectory.
- We believe successful execution on guided metrics, particularly AUM growth of 20-25%, credit cost moderation to ~2.2%, and RoA improvement toward ~2.8-3%, could drive a meaningful re-rating over the medium term. We estimate PAT CAGR of ~32% over FY26-28, translating into RoA/RoE of ~2.7%/15.4% by FY28. Reiterate BUY with a TP of INR370 (2.7x Dec'27E P/BV).

Diversified growth engines with a focus on scalable retail segments

- LTF continues to maintain strong growth visibility, with ~20-25% AUM growth expected over the medium term, led by scaling of core retail franchises, improving productivity, strengthening execution, and driving cross-sell within the existing customer base to enhance customer lifetime value.
- The company is selectively building adjacencies, including urban MFI (with pilots exhibiting collection efficiency of >99%), economical housing (ticket size INR2.5m-5m with ~40-50bp higher yields), and a payments platform (where the company will operate in profitable segments). Work on the payments business is likely to start in FY27, with meaningful revenue contribution expected from FY28 onwards. Further, segments like micro-LAP and rural LAP are also being positioned as scalable growth engines to improve the company's overall profitability.
- Gold loans are emerging as a key growth driver, with plans to further add ~400 branches in FY27, supporting both volume growth and operating leverage.
- Two-wheeler finance has transitioned toward prime borrowers (incrementally ~86% in the disbursement mix), resulting in improved risk-adjusted returns. Tractor finance has also seen a sharp turnaround, with profitability expected to improve ~3x YoY in FY26.
- The company will soon outline its Lakshya 2031 strategy, focused on improving franchise profitability and reinforcing its ambition to evolve into a large-scale financial institution. We expect LTF to post an AUM CAGR of ~22% over FY26-28.

L&T Finance



Mr. Sudipta Roy
MD & CEO

Mr. Roy is a seasoned consumer banking and payments professional with over 24 years of experience, having held leadership roles at ICICI Bank, Citibank, and Deutsche Bank across India and international markets. He brings deep expertise in retail lending, cards, and payments, and has been actively involved in industry and regulatory initiatives, with a strong focus on digital finance and risk management.



Mr. Sachinn Joshi, CFO

Mr. Joshi brings over 34 years of experience across finance, treasury, risk, and operations, with prior leadership roles at Aditya Birla Finance, Angel Group, and IL&FS. He has strong expertise in strategic planning, capital management, and business setup, and is a qualified Chartered and Cost Accountant with a background in law and leadership training from IIM Calcutta.

Stable margins supported by an improving product mix

- While yields have remained under pressure over the past 4-5 quarters due to rate pass-through in the HFC segment and interest reversals in the MFI segment amid industry-wide stress, the company has managed to offset this through a meaningful decline in cost of funds.
- Going forward, the company plans to aggressively scale up gold loans and micro LAP, along with a revival in the MFI segment, which is expected to support yields. LTF aims to maintain NIMs + fees in the ~10.0-10.5% range. We model stable NIMs at 9.5% each in FY27E/FY28E.

Technology-led investments to drive long-term efficiency

- LTF continues to invest in technology and branch expansion (particularly in gold loans), which may keep operating expenses elevated in the near term but remains critical for supporting future growth. Branch expansion is likely to taper as the network matures, with greater reliance on technology.
- Management expects cost ratios to stabilize over time as scale benefits emerge, driven by improved branch productivity, higher cross-sell, and increasing digital efficiencies.
- Management highlighted that operating expenses should not be viewed in isolation, as investments in technology platforms such as Cyclops and Nostradamus are enhancing underwriting capabilities and are expected to drive moderation in credit costs over time. Management indicated that opex plus credit costs (as a % of loans) should remain below 7%, with a gradual improvement toward ~6.5% over the medium term. We expect opex + credit costs (as a % of average assets) to decline to 5.4% by FY28 (vs FY26E: 5.6%)

Asset quality improving; credit costs on a normalization path

- Asset quality continues to improve, with management guiding for credit cost moderation from ~2.8% to ~2.2% over the next five quarters. We expect credit costs (as a % of assets) at 2.1/2.0% in FY27/FY28 (vs. 2.1% in FY26E). The improvement is supported by structural factors, including stronger AI-led underwriting, a higher share of prime and secured lending, and stabilization in the MFI portfolio.
- LTF indicated no impact from the MFI bill in Bihar, with collection efficiencies remaining strong at >99% over the past 15 days, while continuing to reinforce credit discipline through bureau integration and enhanced customer engagement.
- In 4QFY26, the company plans to refresh its ECL model to align LGDs across the three stages. As part of this exercise, excess overlays from Stage 3 will be redistributed to Stage 1 and Stage 2 assets, which could potentially lower PCR in Stage 3 and raise PCR in Stage 1 and 2. Any provision release from Stage 3 will not flow through the P&L.

Technology and AI as a structural differentiator

- LTF is positioning itself as a full-stack AI-driven NBFC, with AI embedded across the entire lending lifecycle—from sourcing and underwriting to collections, fraud detection, and cross-sell. LTF's flagship underwriting engine, Cyclops, has already delivered INR2b of annualized credit cost savings, demonstrating tangible financial benefits. Similarly, platforms like Nostradamus (predictive analytics) and Helios (MSME co-pilot) are enhancing decision-making and risk monitoring.
- Operational efficiency gains are already visible, particularly in SME lending, where underwriting timelines have reduced from ~37 hours to ~16-17 hours, with a target of bringing it to <8 hours. AI capabilities are also being deployed across collections (full AI-driven monitoring), customer acquisition, and cross-sell (agentic AI-based servicing platform expected by Dec'26).
- LTF's AI capabilities are comparable to peers (and perhaps even better in select use cases). This is not yet fully reflected in investor perception and, in our view, will be a potential re-rating trigger as execution becomes more visible.

Growth-linked equity capital raise with execution flexibility

- LTF plans to undertake a capital raise in 1HFY28, aligned with its growth trajectory and balance sheet requirements. This calibrated approach reflects the company's focus on optimizing capital efficiency while ensuring adequate headroom to fund growth without prematurely diluting returns.

Valuation and view

- LTF is well-positioned to deliver a steady improvement in growth and profitability, driven by its ongoing transition toward a granular, retail-focused, and technology-led franchise. The company has built strong visibility on AUM growth, supported by the scaling of its core retail segments and emerging adjacencies, such as gold loans and micro LAP, while maintaining a calibrated approach to risk.
- The company has invested in process automation and customer journeys. This, along with large partnerships with digital giants, should lead to stronger and more sustainable retail loan growth. LTF's relatively better navigation of the MFI credit cycle and diversification into non-leveraged MFI markets demonstrate its resilience and adaptability. Supported by digital partnerships with major players, LTF remains well-placed for sustainable earnings growth in the years ahead.
- We estimate LTF to deliver a PAT CAGR of ~32% over FY26-28, resulting in RoA/RoE of 2.7%/15.4% in FY28. We reiterate our BUY rating on the stock with a TP of INR370 (based on 2.7x Dec'27E P/BV). Key risks: 1) stress re-emerging in microfinance, 2) asset quality deterioration in relatively vulnerable retail segments, such as 2W, unsecured business loans, and micro-LAP, and 3) near-term pressure on NIM and fee income.

Valuation matrix of diversified NBFCs under our coverage

Val summary	Rating	CMP (INR)	MCap (INRb)	EPS (INR)		BV (INR)		RoA (%)		RoE (%)		P/E (x)		P/BV (x)	
				FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E	FY27E	FY28E
LTF	Buy	252	629	15.9	20.3	124	141	2.6	2.7	13.5	15.4	15.9	12.4	2.0	1.8
BAF	Neutral	844	5,240	41.0	51.5	220	264	4.1	4.2	20.2	21.3	20.6	16.4	3.8	3.2
Poonawalla	Buy	385	310	18.0	30.5	186	214	2.2	2.5	12.2	15.3	21.3	12.6	2.1	1.8
ABCL	Buy	306	794	19.9	25.3	146	167	-	-	14.4	16.2	15.4	12.1	2.1	1.8
Piramal Finance	Buy	1,847	409	107.2	183.9	1,353	1,511	1.9	2.7	8.2	12.8	17.2	10.0	1.4	1.2
MAS Financial	Buy	292	53	25.0	30.2	181	208	2.8	2.9	14.7	15.5	11.7	9.7	1.6	1.4
IIFL Finance	Buy	448	190	51.7	66.4	373	433	2.4	2.6	14.8	16.5	8.7	6.8	1.2	1.0
HDB Financial	Neutral	591	490	38.4	46.6	290	337	2.4	2.5	14.2	14.9	16.7	13.8	2.2	1.9
Jio Financial	Buy	232	1,474	3.6	5.4	248	272	2.0	2.4	4.6	7.1	63.7	43.3	0.9	0.9
Northern Arc	Buy	212	34	33.1	43.1	270	313	3.0	3.2	13.0	14.8	6.4	4.9	0.8	0.7

Story in charts

Exhibit 1: Total loans CAGR of ~22% over FY26-FY28E

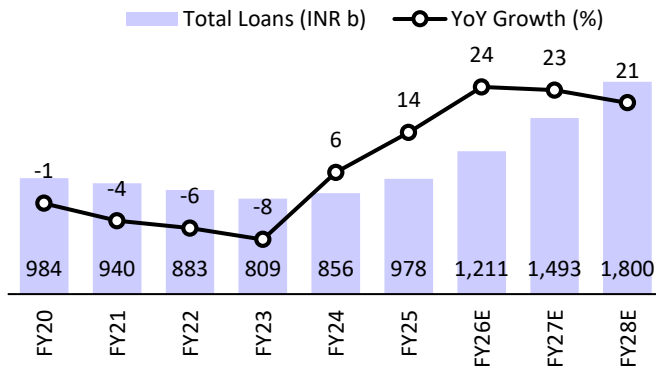


Exhibit 2: Spreads to remain broadly steady over FY27/FY28E

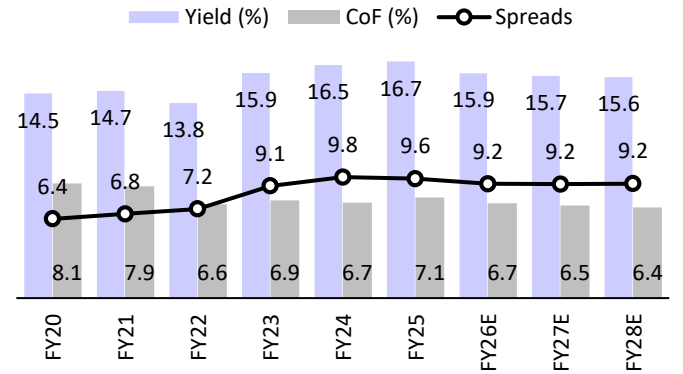


Exhibit 3: Expect NIMs to remain stable over the next two years

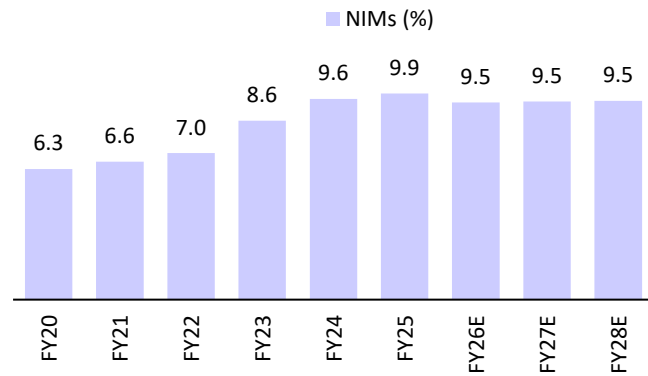


Exhibit 4: Opex/AUM to decline, driven by operating efficiency

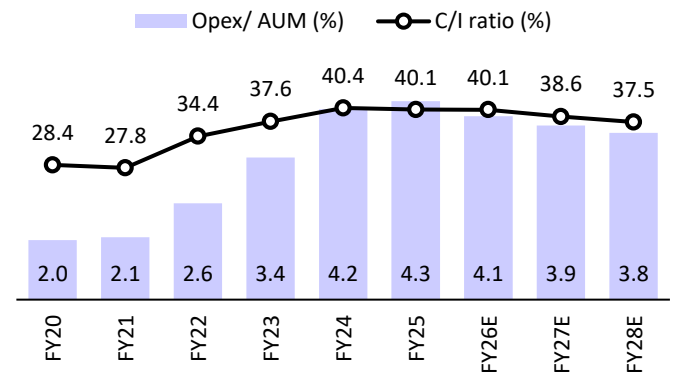


Exhibit 5: Asset quality continues to improve

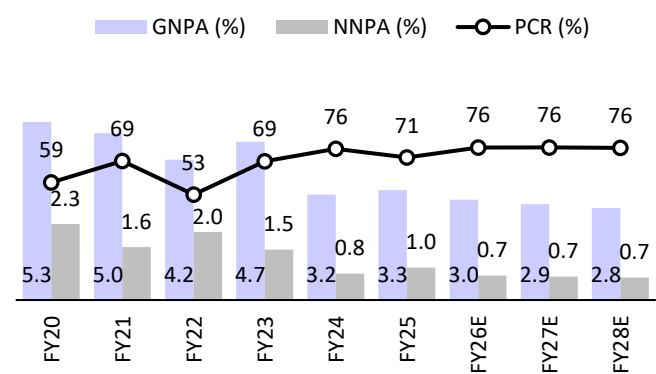


Exhibit 6: Credit costs to moderate gradually in FY27/FY28E

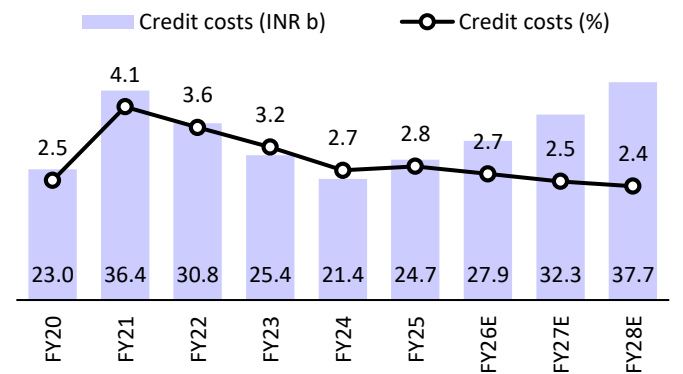


Exhibit 7: Expect PAT CAGR of ~32% over FY26-28

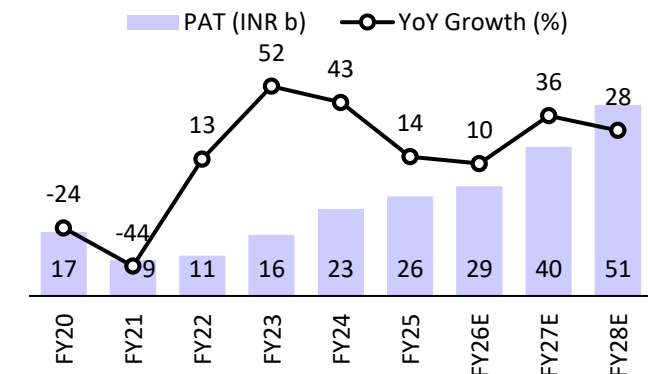
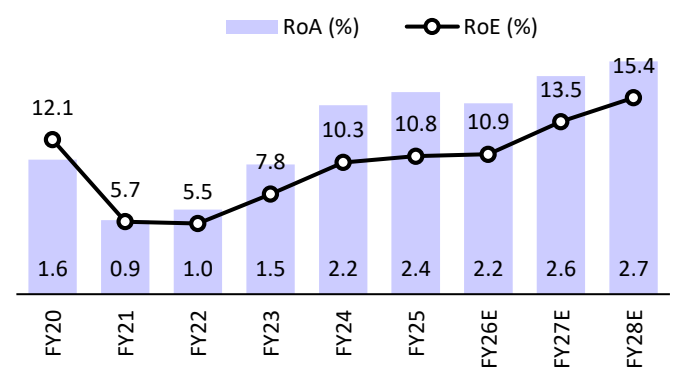


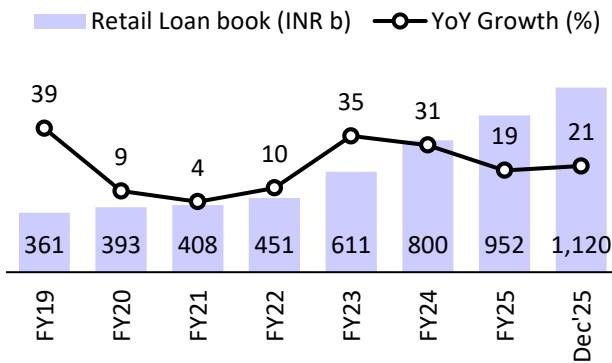
Exhibit 8: RoA/RoE of 2.7%/15.4% by FY28E



Sources: MOFSL, company reports

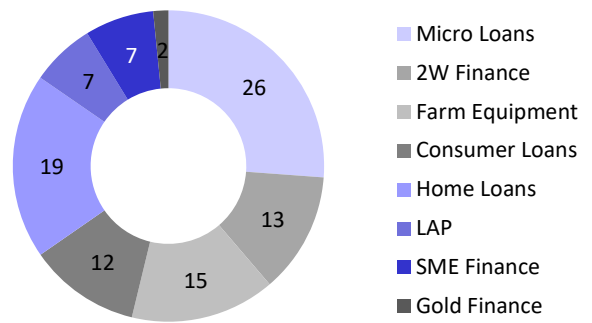
Sources: MOFSL, company reports

Exhibit 9: Retail loan CAGR of ~23% over FY26-28E



Source: MOFSL, Company

Exhibit 10: Retail loan mix (%)



Note: Data as of 3QFY26; Source: MOFSL, Company

Exhibit 11: Retail mix at 98% vs. Lakshya 2026 target of >95%

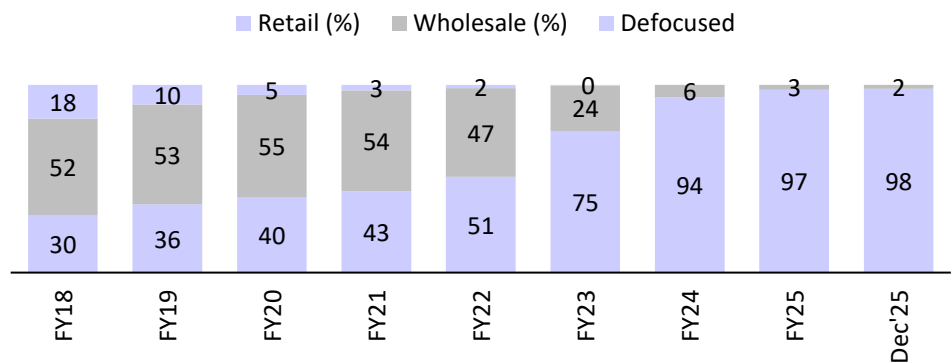
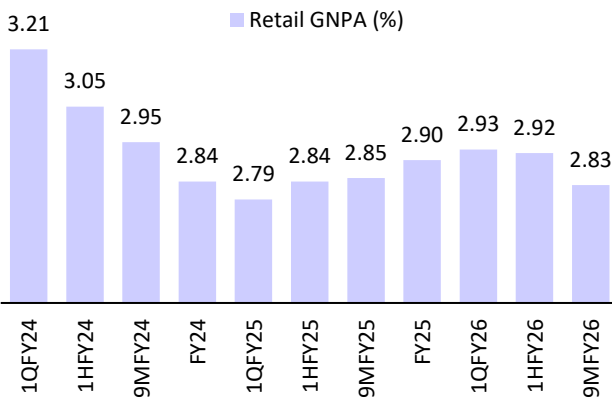
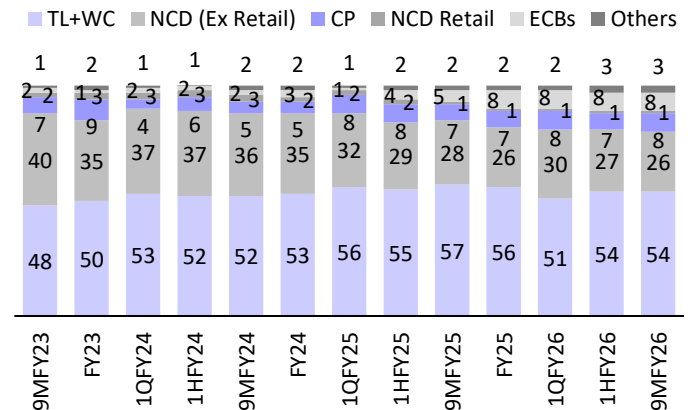


Exhibit 12: Retail asset quality has been broadly stable over the past few quarters, with improvements visible in Dec'25



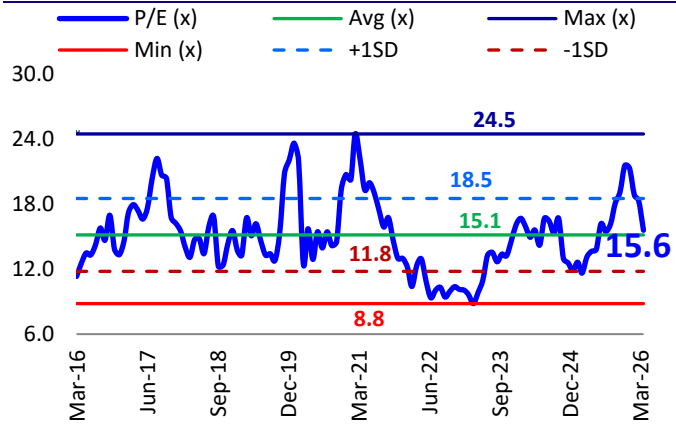
Source: MOFSL, Company

Exhibit 13: Well diversified borrowing mix (%)



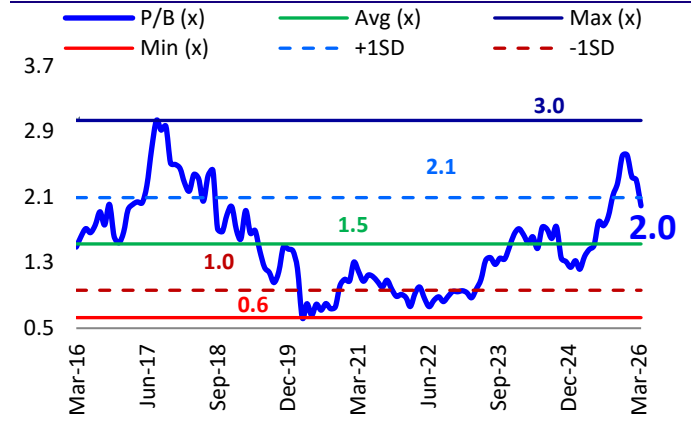
Note: Data as of 3QFY26; Source: MOFSL, Company

Exhibit 14: One-year forward P/E



Sources: MOFSL

Exhibit 15: One-year forward P/B



Sources: MOFSL

RoA Tree (as % of avg. assets)	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	12.3	12.0	10.8	11.8	12.4	13.1	12.8	13.1	13.2
Interest Expended	7.0	6.6	5.3	5.4	5.1	5.4	5.2	5.2	5.2
Net Interest Income	5.3	5.4	5.5	6.3	7.2	7.8	7.6	7.9	8.1
Other Operating Income	0.8	0.5	0.6	0.3	0.6	1.1	1.0	1.0	0.9
Other Income	0.3	0.6	0.4	0.5	0.5	0.0	0.0	0.0	0.0
Net Income	6.5	6.5	6.4	7.2	8.3	8.9	8.6	8.9	9.0
Operating Expenses	1.8	1.8	2.2	2.7	3.4	3.6	3.4	3.4	3.4
<i>Cost to Income Ratio (%)</i>	28.4	27.8	34.4	37.6	40.4	40.1	40.1	38.6	37.5
Employee Expenses	1.0	0.9	1.1	1.3	1.7	2.0	1.9	2.0	2.0
Other Expenses	0.8	0.9	1.2	1.4	1.6	1.6	1.5	1.4	1.4
Operating Profit	4.6	4.7	4.2	4.5	4.9	5.3	5.1	5.5	5.6
Provisions/write offs	2.1	3.3	2.9	2.4	2.0	2.2	2.1	2.1	2.0
PBT	2.5	1.4	1.4	2.1	2.9	3.1	3.0	3.4	3.6
Tax	0.9	0.5	0.4	0.6	0.7	0.8	0.8	0.8	0.9
<i>Tax Rate (%)</i>	36.6	36.5	28.9	28.9	23.5	24.3	25.6	24.3	24.3
PAT before pref dividend	1.6	0.9	1.0	1.5	2.2	2.4	2.2	2.6	2.7
Leverage	7.7	6.5	5.6	5.1	4.6	4.6	4.9	5.3	5.6
RoE	12.1	5.7	5.5	7.8	10.3	10.8	10.9	13.5	15.4

Financials and valuations

Income statement								(INR M)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Interest Income	1,31,049	1,17,042	1,25,651	1,29,139	1,46,633	1,66,789	2,03,244	2,45,873
Interest Expended	71,999	57,494	57,972	53,772	59,968	67,723	80,412	95,930
Net Interest Income	59,049	59,548	67,679	75,367	86,665	99,066	1,22,832	1,49,943
Change (%)	3.0	0.8	13.7	11.4	15.0	14.3	24.0	22.1
Other Operating Income	5,732	6,053	3,569	6,667	12,610	12,688	14,888	17,407
Net Operating Income	64,782	65,601	71,248	82,034	99,275	1,11,755	1,37,720	1,67,350
Change (%)	-1.7	1.3	8.6	15.1	21.0	12.6	23.2	21.5
Other Income	6,276	3,928	5,268	4,745	167	176	193	213
Net Income	71,058	69,529	76,515	86,779	99,442	1,11,930	1,37,913	1,67,563
Change (%)	2.0	-2.2	10.0	13.4	14.6	12.6	23.2	21.5
Operating Expenses	19,749	23,946	28,732	35,079	39,846	44,841	53,238	62,766
Operating Profits	51,309	45,582	47,783	51,701	59,597	67,090	84,675	1,04,797
Change (%)	2.9	-11.2	4.8	8.2	15.3	12.6	26.2	23.8
Provisions/write offs	36,357	30,833	25,404	21,410	24,684	27,859	32,281	37,730
PBT	14,952	14,750	22,379	30,290	34,913	39,230	52,393	67,067
Tax	5,463	4,256	6,464	7,119	8,478	10,043	12,732	16,297
Tax Rate (%)	36.5	28.9	28.9	23.5	24.3	25.6	24.3	24.3
PAT before pref dividend	9,489	10,494	15,915	23,171	26,434	29,187	39,662	50,770
Change (%)	-44.2	10.6	51.7	45.6	14.1	10.4	35.9	28.0
Preference Dividend	0	0	0	0	0	0	0	0
PAT to equity shareholders (incl. extraordinary items)	9,489	10,704	16,216	23,171	26,434	29,187	39,662	50,770
Change (%)	-44	13	52	43	14	10	36	28
Proposed Dividend	0	1,237	4,959	6,222	6,861	7,589	9,915	12,692

Balance sheet								(INR M)
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	24,695	24,740	24,797	24,889	24,949	24,949	24,949	24,949
Reserves & Surplus	1,63,038	1,74,737	1,90,487	2,09,495	2,30,692	2,53,018	2,85,091	3,25,946
Borrowings	8,85,558	8,52,012	8,30,435	7,65,409	9,22,469	10,99,106	13,59,988	16,37,813
Change (%)	-5.7	-3.8	-2.5	-7.8	20.5	19.1	23.7	20.4
Other liabilities	16,427	17,533	17,903	27,383	25,984	27,250	28,579	29,974
Total Liabilities	10,89,717	10,69,022	10,63,621	10,27,176	12,04,094	14,04,323	16,98,606	20,18,682
Loans	8,70,303	8,24,694	7,51,546	8,13,594	9,37,731	11,56,954	14,25,563	17,18,587
Change (%)	-4.8	-5.2	-8.9	8.3	15.3	23.4	23.2	20.6
Investments	88,721	1,19,169	1,43,662	1,23,849	1,18,760	1,24,698	1,30,933	1,37,479
Change (%)	48.4	34.3	20.6	-13.8	-4.1	5.0	5.0	5.0
Net Fixed Assets	11,621	5,306	5,573	5,550	6,860	7,203	7,563	7,941
Other assets	1,19,071	1,19,852	1,62,841	84,183	1,40,744	1,15,469	1,34,548	1,54,675
Total Assets	10,89,717	10,69,022	10,63,621	10,27,176	12,04,094	14,04,323	16,98,606	20,18,682

E: MOFSL Estimates

Financials and valuations

AUM Mix						(%)		
AUM Details	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Asset Under Management	9,40,140	8,83,400	8,08,930	8,55,640	9,77,620	12,11,470	14,92,737	17,99,567
Change (%)	-4.4	-6.0	-8.4	5.8	14.3	23.9	23.2	20.6
Rural	32.0	39.0	58.5	70.3	70.6	72.4	73.9	73.8
Housing	25.2	24.8	23.7	24.3	26.7	25.6	24.9	25.5
Focused - Wholesale	39.9	34.5	17.0	3.7	1.4	0.9	0.5	0.0
Defocused - Wholesale	2.9	1.7	0.4	0.0	0.0	0.0	0.0	0.0
Ratios						(%)		
Y/E March	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Spreads Analysis (%)								
Avg. Yield on Loans	14.7	13.8	15.9	16.5	16.7	15.9	15.7	15.6
Avg. Cost-Int. Bear. Liab.	7.9	6.6	6.9	6.7	7.1	6.7	6.5	6.4
Loan Spreads	6.8	7.2	9.1	9.8	9.6	9.2	9.2	9.2
NIM on loans	6.6	7.0	8.6	9.6	9.9	9.5	9.5	9.5
Profitability Ratios (%)								
Int. Expended/Int. Earned	54.9	49.1	46.1	41.6	40.9	40.6	39.6	39.0
Other Inc./Net Income	16.9	14.4	11.5	13.2	12.8	11.5	10.9	10.5
Op. Exps./Net Income	27.8	34.4	37.6	40.4	40.1	40.1	38.6	37.5
Empl. Cost/Op. Exps.	51.0	47.5	49.1	51.5	55.6	56.6	58.2	59.7
Provisions/PPoP (%)	70.9	67.6	53.2	41.4	41.4	41.5	38.1	36.0
Asset Quality (%)								
Gross NPAs	45,040	35,430	38,320	26,980	32,180	35,587	41,866	48,367
Gross NPAs to Adv.	5.0	4.2	4.7	3.2	3.3	3.0	2.9	2.8
Net NPAs	13,770	16,780	11,780	6,610	9,290	8,478	9,966	11,603
Net NPAs to Adv.	1.6	2.0	1.5	0.8	1.0	0.7	0.7	0.7
PCR (%)	69.4	52.6	69.3	75.5	71.1	76.2	76.2	76.0
ECL/EAD (%)								
Return ratios and Capitalisation (%)								
RoE	5.7	5.5	7.8	10.3	10.8	10.9	13.5	15.4
RoA	0.9	1.0	1.5	2.2	2.4	2.2	2.6	2.7
Debt to Equity (x)	4.7	4.3	3.9	3.3	3.6	4.0	4.4	4.7
Average Assets/Equity (x)	6.5	5.6	5.1	4.6	4.6	4.9	5.3	5.6
VALUATION								
Book Value (INR)	76.0	80.6	86.8	94.2	102.5	111.4	124.3	140.6
Price-BV (x)	3.3	3.1	2.9	2.7	2.5	2.3	2.0	1.8
EPS (INR)	3.8	4.3	6.5	9.3	10.6	11.7	15.9	20.3
EPS Growth YoY	-54.7	12.6	51.2	42.4	13.8	10.4	35.9	28.0
Price-Earnings (x)	65.6	58.2	38.5	27.1	23.8	21.5	15.9	12.4
Dividend per share (INR)	0.0	0.5	2.0	2.5	2.8	3.0	4.0	5.1
Dividend yield (%)	0.0	0.2	0.8	1.0	1.1	1.2	1.6	2.0

E: MOFSL Estimates

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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