L&T Finance Limited (LTFINA)

ICICI Direct

CMP: ₹ 324 | Target: ₹ 380 (17%) | Target Period: 12 months | BUY

July 13, 2026

On track to deliver growth along with RoA expansion...

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.

- LTF is engaged in consumer loans, 2-wheeler loans, home loans, MFI, farm & SME loans.

Q1FY27 performance: L&T Finance reported a strong Q1FY27 performance, with retail disbursements increasing to ₹23,852 crore (+36% YoY), driven by continued traction across rural business finance, urban finance and gold finance. Retail book expanded ~28% YoY to ₹1,27,450 crore, while consolidated book stood at ₹1,29,634 crore. NIM+Fees remained stable at 10.47%, supported by a calibrated portfolio mix and stable yields. PAT grew 29% YoY (12% QoQ) to ₹902 crore, with RoA improving to 2.48% and RoE to 12.71%.

Investment Rationale

- **Retail franchise continues to support sustainable growth:** LTF's diversified retail franchise continues to drive healthy business momentum, aided by expanded distribution and digital capabilities. Gradual recovery in rural franchise, supported by normalised collection efficiency and disciplined guardrails, alongside accelerated gold loan expansion through rollout of 500 branches by FY27 and Project Canyon platform, is expected to enhance portfolio diversity and growth visibility. Focus on prime borrowers and strategic branch expansion supports sustained business momentum while maintaining portfolio quality. We expect ~23% CAGR AUM growth over FY26–28E.
- **Stable earnings profile despite near-term margin pressures:** While higher funding costs and temporary surplus liquidity weighed on NIM during the quarter, NIM + fee income remained resilient at 10.47%. While the liability environment is expected to remain competitive in the near term, a favourable product mix, improving fee income and operating leverage from scale should help offset margin headwinds. Management has reiterated FY27 NIM + fee income guidance of 10–10.5%, while ongoing investments in technology and AI-led process automation are expected to improve productivity and cost efficiencies, supporting gradual profitability improvement.
- **Strengthening asset quality to support sustainable RoA improvement:** LTF is enhancing its credit profile through disciplined underwriting, stricter credit measures, and AI risk management, which is improving collection efficiency in Rural Business Finance. The adoption of Project Cyclops and Project Nostradamus is expected to boost customer selection and portfolio monitoring, supporting asset quality. Management expects credit costs to moderate to 2–2.2% by Q4FY27, with a medium-term goal of under 2%, while aiming for a RoA of 2.8% by Q4FY27. Combined with operating leverage, we expect RoA to improve to ~2.4% by FY27E.

Rating and Target Price

Strategy outlining sustained growth aided by recovery in MFI, focus on prime customers, maintaining stable margin and tight control on asset quality amid technology-led underwriting is seen to aid RoA. Progress under Lakshya 2031 & retail disbursement growth should sustain profitability. We revise our multiple to ~2.7x FY28E BV, and target price to ₹380. Upgrade rating from Hold to Buy.

L&T Finance

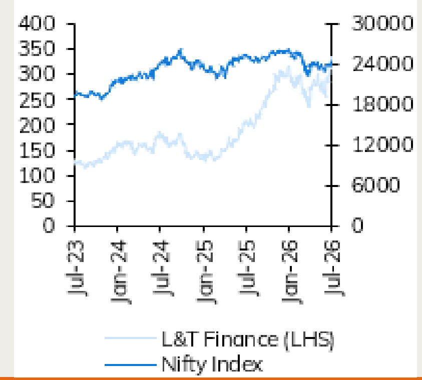
Particulars

Particulars	Amount
Market Capitalisation	₹ 81,584 crore
52 week H/L	339 / 194
Net worth	₹ 28,213 Crore
Face Value	10.0
DII Holding (%)	14.9
FII Holding (%)	7.7

Shareholding pattern

(in %)	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	66.1	66.0	66.0	66.0
FII	6.4	6.6	7.6	7.7
DII	14.3	15.3	14.9	14.9
Others	13.2	12.0	11.5	11.5

Price Chart



Key risks

(i) Moderation in AUM growth amid competition

(ii) Slower pace of moderation in credit cost can impact RoA expansion

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

	FY25	FY26	3 year CAGR (FY23-FY26)	FY27E	FY28E	2 year CAGR (FY26-FY28E)
NII (₹ crore)	8047	9228	13.2%	12187	15168	28.2%
Net Profit (₹ crore)	2644	3003	22.8%	3742	4567	23.3%
EPS (₹)	10.6	11.9	22.1%	14.9	18.2	23.8%
P/E (x)	30.6	27.2		21.7	17.8	
P/BV (x)	3.2	2.9		2.6	2.3	
P/ABV (x)	3.2	3.0		2.7	2.4	
RoE (%)	10.3	10.7		12.1	13.2	
RoA (%)	2.4	2.3		2.4	2.4	

Source: Company, ICICI Direct Research

Concall highlights and outlook

Business performance

- Retail loan book grew to ₹1,27,535 crore (+28% YoY), while consolidated book reached ₹1,29,634 crore (+27% YoY, +6% QoQ). Retailisation remained at ~98%, supported by broad-based growth across urban and rural businesses.
- Quarterly retail disbursements stood at ₹23,852 crore (+36% YoY), led by Personal Loans (+126% YoY), Two-Wheeler Finance (+41%), Rural Business Finance (+24%), SME Finance (+23%), Mortgages (+22%), Farm Finance (+11%) and Gold Loans (+26%), reflecting continued strength across the retail franchise.
- Management deliberately forewent ₹1,000–1,200 crore of potential disbursements by tightening credit guardrails amid macro uncertainty, prioritising asset quality over aggressive growth.
- Gold loan branch network expanded to 343 branches, with the book increasing to ~₹3,829 crore (+182% YoY). Management plans to open 500 gold loan branches (~1.4 branches/day) in FY27, an increase from earlier target of 400+.
- Consolidated PAT increased to a record ₹902 crore (+29% YoY), while RoA improved to 2.48% and RoE to 12.71%. Credit cost moderated to 2.54%, with management reiterating its commitment to achieve 2.8% RoA by Q4FY27 and 3.0–3.2% RoA with 16–18% RoE by FY31.

Technology Innovations

- Project Cyclops expanded across Two-Wheeler, Personal Loans, SME and Farm Finance, with rollout to Rural Business Finance and Mortgages planned during FY27. The AI-powered underwriting engine has underwritten ₹12,000+ crore in the two-wheeler portfolio, while prime customer share in Two-Wheeler Finance increased to 90%.
- Project Nostradamus is now live across Two-Wheeler Finance and Personal Loans (beta), with rollout across Rural Business Finance, SME and Farm Finance planned during FY27.
- Helios processed ~39,000 underwriting files, while Orion serviced 3,000+ business queries, ShighraM automated 4,000+ mortgage legal files, and Project Argus was launched to strengthen AI-led fraud screening for SME Finance.
- Project Canyon: Launched an AI-powered Loan Origination System for Gold Finance in four months, integrating 16+ systems and 60+ APIs, with 60% code generated by AI for improved turnaround, customer experience, and scalability.
- Project Hercules: Unveiled an AI-powered service and cross-sell platform using unified customer data and predictive analytics for hyper-personalized engagement across multiple channels, aimed for rollout by Q3FY27 to enhance cross-sell and service quality.
- Continued investments in private cloud, with a projected 70% lower five-year total cost than hyperscale providers. GPU servers are being added, and migration from public to private cloud is planned in Q3–Q4FY27 to enhance AI workload efficiency.

Margins

- NIM + fee income remained stable at 10.47%, unchanged QoQ and up 25 bps YoY, supported by higher fee income, yield management and efficient liability management.
- Core NIM declined to 8.54% from 8.78% in Q4FY26 due to higher funding costs and ~₹4,200 crore of surplus liquidity maintained during geopolitical

uncertainty. Income from deployment of surplus liquidity offset the impact, keeping NIM + fee income stable.
- Portfolio yield remained stable at 14.81%, while WACB stood at 7.2%. Management expects FY27 average cost of funds at ~7.35–7.4%, while continuing to diversify borrowings across funding sources.

Asset Quality

- Credit cost declined to 2.54% from 2.64% in Q4FY26, supported by stronger credit administration, collection efficiency and AI-led portfolio management.
- Consolidated GS3/NS3 stood at 2.86%/0.9%, while Retail Stage 3 improved to 2.48% and Net Stage 3 to 0.77%. Stage 1 PCR improved to 0.86%.
- Rural Business Finance collection efficiency remained at pre-crisis levels, supporting the resumption of growth within MFIN guardrails.
- Wholesale loan book declined to ₹2,098 crore (-16% YoY), with management indicating the remaining portfolio comprises standard assets and does not assume incremental wholesale credit cost in FY27 guidance.
- AI-led underwriting continued to improve portfolio resilience, with 90% of June two-wheeler disbursements sourced from prime customers.

Guidance/ Outlook

- Management reiterated 20%+ AUM growth guidance for FY27, under Lakshya 2031, while maintaining a disciplined risk-first approach.
- FY27 NIM + fee income guidance of 10–10.5% was reaffirmed despite temporary pressure on reported NIM from higher funding costs and surplus liquidity.
- Management reiterated its expectation of 2–2.2% credit cost by Q4FY27, with sub-2% credit cost achievable during FY28.
- Management reaffirmed its target of 2.8% RoA by Q4FY27, while continuing to target 3–3.2% RoA and 16–18% RoE under Lakshya 2031, supported by lower credit costs, operating leverage and technology-led productivity improvements.
- Management expects the ~80 bps RoA improvement required to achieve the Lakshya 2031 target to be driven by ~20 bps from the elimination of the ARC/SR portfolio drag, ~30–40 bps from lower credit costs and improved operating/collection efficiency, with the balance coming from business expansion and operating leverage.

Exhibit 1: Variance Analysis

	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
NII	2684	2054	30.7	2549	5.3	Healthy NII growth driven by AUM expansion
NIM (%)	8.5%	8.2%	30 bps	8.8%	-24 bps	Increase in cost of funds and temporary surplus liquidity moderated margins
Other Income (Incl Fees)	605	493	22.7	492	23.0	Increase led by higher fee income and treasury income, keeping NIM+fee income stable
Total income	3289	2547	29.1	3041	8.2	
Operating expenses	1267	1049	20.8	1201	5.5	Increase due to continued investement in technology, AI capabilities and distribution
Operating income	2022	1498	35.0	1840	9.9	
Credit losses/ provisions	800	556	43.9	768	4.2	
PBT	1222	942	29.7	1072	14.0	
Tax	320	242	32.2	265	20.8	
PAT	902	700	28.9	807	11.8	Growth led by healthy operating performance, stable NIM + fee income and improving credit costs
Key Metrics						
Loan Book	129634	102314	26.7	121728	6.5	AUM grew steadily, driven by personal and gold loans and revival in rural business

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Interest Earned	14,044.0	15,948.0	20,314.2	25,051.0
Interest Expended	5,997.0	6,720.0	8,127.2	9,882.6
Net Interest Income	8,047.0	9,228.0	12,186.9	15,168.5
growth (%)	13.1%	14.7%	32.1%	24.5%
Non Interest Income	1,740.0	1,973.0	2,308.4	2,700.8
Net Income	9,787.0	11,201.0	14,495.3	17,869.3
Opex	3,984.6	4,986.1	6,363.9	7,977.6
Operating Profit	5,802.4	6,214.9	8,131.4	9,891.7
Provisions	2,311.0	2,751.0	3,208.2	3,882.1
PBT	3,491.4	3,463.9	4,923.2	6,009.5
Taxes	847.4	460.9	1,181.6	1,442.3
Net Profit	2,644.0	3,003.0	3,741.6	4,567.2
growth (%)	14.0%	13.6%	24.6%	22.1%
EPS (₹)	10.6	11.9	14.9	18.2

Source: Company, ICICI Direct Research

Exhibit 3: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Valuation				
No. of Equity Shares (Crores)	249.5	250.4	250.4	250.4
EPS (₹)	10.6	11.9	14.9	18.2
BV (₹)	102.5	111.7	123.7	138.7
ABV (₹)	99.8	108.0	119.1	133.9
P/E	30.6	27.2	21.7	17.8
P/BV	3.2	2.9	2.6	2.3
P/ABV	3.2	3.0	2.7	2.4
Yields & Margins (%)				
Net Interest Margins	8.8	8.4	9.0	9.0
Yield on assets	15.3	14.5	14.9	14.9
Avg. cost on borrowings	7.1	6.6	6.6	6.5
Quality and Efficiency (%)				
Cost to income ratio	40.7	44.5	43.9	44.6
Loan to borrowing (%)	101.7	107.2	106.6	106.6
GNPA	3.3	2.9	2.7	2.8
NNPA	1.0	1.0	0.8	0.8
RoE	10.3	10.7	12.1	13.2
RoA	2.4	2.3	2.4	2.4
RoAUM	2.9	2.7	2.7	2.7

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(Year-end March)	FY25	FY26	FY27E	FY28E
Sources of Funds				
Capital	2495	2504	2504	2504
Reserves and Surplus	23069	25479	28482	32224
Networth	25564	27984	30987	34728
Borrowings	92247	109888	135480	167455
Other Liabilities & Provisions	2598	4334	5278	8628
Total	120409	142205	171744	210812
Application of Funds				
Fixed Assets	686	1370	1506	1657
Investments	11876	10564	12795	14885
Advances	93773	117821	144391	178469
Other assets	14074	12451	13052	15800
Total	120409	142205	171744	210812

Source: Company, ICICI Direct Research

Exhibit 5: Growth ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Total assets	17.2%	18.1%	20.0%	20.0%
Advances	14.3%	24.5%	23.7%	23.6%
Net interest income	13.1%	14.7%	32.1%	24.5%
Operating expenses	3.9%	43.2%	26.5%	26.5%
Net profit	14.0%	13.6%	24.6%	22.1%
Net worth	9.1%	9.5%	13.4%	14.4%

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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