

CMP: ₹ 269

Target: ₹ 310 (15%)

Target Period: 12 months

BUY

October 17, 2025

Revival in MFI & gold loans to aid RoA....

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)

Q2FY26 performance: L&T Finance reported a steady performance in Q2FY26. Retail disbursements stood at ₹18,884 crore (up ~25% YoY, 7.8% QoQ), primarily led by personal loans and rural business finance. Retail book expanded 18% YoY to ₹1,04,607 crore, while consolidated AUM increased 15% YoY to ₹1,07,096 crore. NIM+Fees remained steady at 10.22%. PAT improved 5.5% YoY (4.9% QoQ) to ₹735 crore; RoA/ RoE rose to 2.41%/ 11.33%. Asset quality metrics were stable with GNPA/ NNPA at 3.29%/ 1%. Credit cost stood at 2.41% (post utilizing ₹150 crore of provision buffer), is expected to tend toward normalisation in H2FY26.

Investment Rationale

- Disciplined Growth Amid Segment Shift:** LTF reported healthy disbursements in Q2FY26, up 25% YoY led by personal loans and revival in rural business finance. While moderation is expected in home loans, due to rising competition, strategy to shift towards prime segment is underway with healthy traction in gold loans and revival in microfinance segment. For FY26, credit growth is expected at ~25% in FY26, with ~15% traction in microfinance.
- 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 revival in MFI along with reduction in cost of funds could partially offset the pressure, with near-term guidance remains at 10-10.5%. RoA target for medium term at 2.8-3% remains maintained, with gradual improvement expected as MFI segment stabilizes. With guidance for NIM + fee income at 10-10.5% range, we expect RoA at 2.1% in FY26E-27E.
- Credit cost elevated; provision buffer utilized in Q2FY26:** While LTF has navigated volatility in MFI well, credit cost remained elevated at 2.41% (2.98% - excluding ₹150 crore buffer utilized in Q2FY26). Credit costs trend is expected to moderate owing to 1) improvement in collection in Karnataka, 2) outstanding buffer of ₹125 crore and 3) Cyclops implementation in key businesses like two-wheeler and farm loans.

Rating and Target Price

- Superior navigation amid volatility in MFI cycle imbibes confidence. Strategy to grow in risk calibrated manner with focus on gold loans and anticipated revival in MFI bodes well for business momentum as well as margins. Increased adoption of technology is expected to aid efficiency and structural improvement in credit cost resulting in improvement in RoA.
- Anticipating improvement in H2FY26, we revise our target price to ₹310, valuing the stock at ~2.5 FY27E BV. Maintain 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%	8813	10879	16.3%
Net Profit (₹ crore)	1623	2320	2644	27.6%	2825	3686	18.1%
EPS (₹)	6.5	9.3	10.6	27.2%	11.3	14.8	18.1%
P/E (x)	41.1	28.9	25.4		23.8	18.2	
P/BV (x)	3.1	2.9	2.6		2.4	2.2	
P/ABV (x)	3.4	3.0	2.7		2.5	2.2	
RoE (%)	7.5	9.9	10.3		10.0	11.9	
RoA (%)	1.5	2.3	2.2		2.0	2.1	

Source: Company, ICICI Direct Research



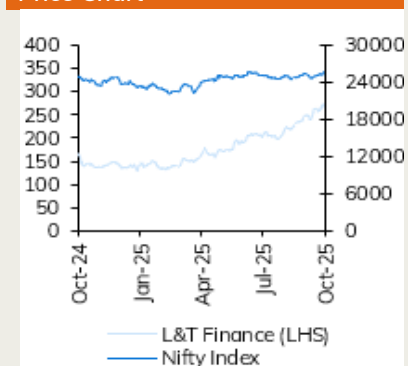
Particulars

Particulars	Amount
Market Capitalisation ₹	67,369 crore
52 week H/L	273 / 129
Net worth	₹ 26,358 crore
Face Value	10.0
DII Holding (%)	14.3
FII Holding (%)	6.4

Shareholding pattern

(in %)	Dec-24	Mar-25	Jun-25	Sep-25
Promoter	66.3	66.2	66.2	66.1
FII	5.3	5.5	6.2	6.4
DII	12.2	13.3	14.1	14.3
Others	16.3	15.0	13.6	13.2

Price Chart



Key risks

- Moderation in AUM growth amid competition
- Higher than expected margin pressure owing to change in asset mix

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Con-call highlights and outlook

Business Update

- Loan Book Growth: Consolidated loan book surged to ₹1,07,096 crore (+15% YoY); retail book stood at ₹1,04,607 crore (+18% YoY).
- PAT for the quarter reached ₹735 crore, marking a 4.9% growth QoQ and 5.5% YoY. RoA declined 19 bps YoY to 2.41% but up 4bps QoQ.
- 6.6 lakh new customers added, with total customer base at ~2.7 crore.
- Retail disbursements stood at ₹18,883 crore (+25% YoY), with rural finance up 16% QoQ, supported by steadily improving collection efficiency and stronger disbursement momentum across geographies.
- Karnataka collections have recovered substantially at 99.03%; ₹ 150 crore, provisions utilized in Q2FY26, CE expected to normalise in H2FY26.
- Plan to expand geographical presence with 200 new branches, focused on areas with high cross-sell potential. 330+ branches planned for gold loans by end of FY26.
- Personal loans yields vary between 15.5-16.5%, with rates adjusted lower for customers with higher credit score.
- Digital partnerships with Google Pay, Amazon Pay, Cred and PhonePe drove ₹ 1,138 crore, personal loan disbursement in Q2 pushing personal disbursement for Q2 up 50% QoQ and 114% YoY at ₹2,918 crore, while keeping a strong focus on credit and risk guardrails.

Technology Innovations

- Project Cyclops AI/ML-based underwriting is now fully operational and powers 100% of underwriting in two-wheelers, farm equipment, SME, and will be extended to personal loans in Q3FY26. Rural business finance and mortgage business segment will be implemented in FY27E. Total number of cases dispersed in the two-wheeler vertical through Cyclops engine crossed 7.5 lakhs during the quarter, while more than 21,000 cases were dispersed in farmer finance segment. As a consequence, net non-starter for two-wheeler portfolio reduced to 0.47% for September'25 from 2.36% in December 2024, which has also contributed to a reduction in overall gross credit costs.
- Project Nostradamus Automated, AI-driven portfolio and risk management platform was launched for Beta mode in two-wheeler finance in August 2025, with data dashboards for early warning and proactive portfolio management to monitor performance down to an individual micro-market cluster.
- Gen AI Innovations were launched, including an in-house LLM-based SME underwriting co-pilot shortening underwriting files from 3-4 hours to sub-30 minutes and collections initiatives including voice bots. Machine learning operation teams were established to monitor and implement algorithms and scorecards

Guidance

- AUM growth targeted at 25%; 15% growth in MFI
- 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 2.3-2.5%. 2% credit cost guided for medium term.

- RoA: Target of 2.8-3% for exit FY27E, currently at 2.41%, with further improvement expected as MFI segment stabilizes and growth across portfolio.
- The company aims for a secured/unsecured portfolio mix of 65/35 over time, with 60/40 as the first target.
- Operating expenses plus credit costs are expected to trend down from 7% to 6.5% and eventually 6% by FY27E

Margin

- Q2FY26 NIM + Fee income at 10.22% vs 10.86% YoY, impacted by disbursement and distribution mix.
- Focus on improving operational efficiency through cost controls, productivity, and tech projects like Cyclops and Nostradamus

Asset Quality

- Provisioning: Utilized ₹150 crore in macro-prudential provisions in Q2FY26. Outstanding provision buffer at ₹125 crore, to be built up using realizations from our ARC portfolios
- Asset Quality: Gross Stage 3 (GS3) at 3.29%, Net Stage 3 (NS3) at 1%. GNPA/NNPA to be maintained at 3%/1%, with further improvement expected via higher prime customer share and Cyclops rollout.

Exhibit 1: Variance Analys

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
NII	2218	2051	8.2	2054	8.0	AUM growth offset by margin compression
NIM (%)	8.4%	8.9%	-52 bps	8.2%	18 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)	474	440	7.7	493	-3.9	
Total income	2692	2491	8.1	2547	5.7	
Operating expenses	1068	958	11.5	1049	1.8	
Operating income	1624	1533	5.9	1498	8.4	
Credit losses/provisions	635	595	6.7	556	14.2	Credit cost elevated owing to pain in MFI segment. Utilized ₹150 crore, macro-prudential provision
PBT	989	938	5.4	943	4.9	
Tax	254	241	5.3	242	5.0	
PAT	735	697	5.5	701	4.9	
Key Metrics						
Loan Book	107096	93015	15.1	102314	4.7	AUM grew steadily, driven by personal loans and rural business 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	15,827.9	19,452.0
Interest Expended	5,377.0	5,997.0	7,014.7	8,572.8
Net Interest Income	7,115.0	8,047.0	8,813.2	10,879.2
growth (%)	11.7%	13.1%	9.5%	23.4%
Non Interest Income	1,609.0	1,740.0	2,001.0	2,341.2
Net Income	8,724.0	9,787.0	10,814.2	13,220.3
Opex	3,507.9	3,984.6	4,469.1	5,116.2
Operating Profit	5,216.1	5,802.4	6,345.1	8,104.2
Provisions	2,006.0	2,311.0	2,627.8	3,254.0
PBT	3,210.1	3,491.4	3,717.3	4,850.2
Taxes	715.1	847.4	892.1	1,164.0
Exceptional item	175.0	-	-	-
Net Profit	2,320.0	2,644.0	2,825.1	3,686.1
growth (%)	42.9%	14.0%	6.9%	30.5%
EPS (₹)	9.3	10.6	11.3	14.8

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	11.3	14.8
BV (₹)	94.2	102.5	113.1	124.4
ABV (₹)	89.4	99.8	109.3	120.1
P/E	28.9	25.4	23.8	18.2
P/BV	2.9	2.6	2.4	2.2
P/ABV	3.0	2.7	2.5	2.2
Yields & Margins (%)				
Net Interest Margins	8.6	8.8	8.1	8.1
Yield on assets	15.0	15.3	14.6	14.5
Avg. cost on borrowings	6.8	7.1	6.7	6.5
Quality and Efficiency (%)				
Cost to income ratio	40.2	40.7	41.3	38.7
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	10.0	11.9
RoA	2.3	2.2	2.0	2.1
RoAUM	2.8	2.9	2.6	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	28538
Networth	23438	25564	28208	31033
Borrowings	76541	92247	116682	146496
Other Liabilities & Provisions	26177	28160	23640	28853
Total	102718	120407	140323	175349
Application of Funds				
Fixed Assets	555	686	753	829
Investments	12385	11876	14317	17938
Advances	81359	93773	112149	140516
Other assets	21358	26634	28174	34832
Total	102718	120407	140323	175349

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%	22.0%	25.3%
Net interest income	11.7%	13.1%	9.5%	23.4%
Operating expenses	11.7%	3.9%	8.1%	13.3%
Net profit	42.9%	14.0%	6.9%	30.5%
Net worth	8.9%	9.1%	11.1%	13.0%

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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