

L&T Finance

Estimate changes 

TP change 

Rating change 

	LTF IN
Bloomberg Equity Shares (m)	2490
M.Cap.(INRb)/(USDb)	459.5 / 5.5
52-Week Range (INR)	194 / 117
1, 6, 12 Rel. Per (%)	-3/-5/16
12M Avg Val (INR M)	1372

Financials Snapshot (INR b)

Y/E MARCH	FY24	FY25E	FY26E
NII	75.4	91.0	113.8
PPOP	51.7	61.9	80.0
NP	23.2	29.2	37.7
EPS (Rs)	9.3	11.7	15.2
EPS Gr. (%)	42.4	26.0	29.2
BV/Share	94	103	116

Ratios

NIM (%)	9.6	10.0	10.0
C/I ratio (%)	40.4	40.1	37.1
RoA (%)	2.2	2.6	2.7
RoE (%)	10.3	11.9	13.9
Payout (%)	26.9	26.0	22.5

Valuations

P/E (x)	19.9	15.8	12.2
P/BV (x)	2.0	1.8	1.6

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	66.4	65.9	66.1
DII	11.7	8.7	5.3
FII	7.3	11.1	13.9
Others	14.7	14.4	14.7

FII Includes depository receipts

CMP: INR185

TP: INR230 (+25%)

Buy

Earnings in line; strong retail momentum continues

NIM improves ~15bp QoQ; asset quality stable

- L&T Finance (LTF) posted ~29% YoY PAT growth to INR6.9b (in line) in 1QFY25. PPOP grew ~19% YoY to ~INR14.7b (in line), while credit costs stood at INR5.4b, translating into annualized credit costs of 2.5% (PQ: 3.2% and PY: 2.6%). Last quarter, it had a one-off impact of ~INR1.75b of additional provisions on security receipts (SRs). Consol. RoA/RoE stood at ~2.7%/11.6%.
 - Retail assets contributed ~95% to the loan mix (PQ: 94%). Retail loans grew ~31% YoY, fueled by healthy growth in MFI, 2Ws, home loans, and SME. LTF continued to calibrate growth in personal loans, which grew ~11% YoY.
 - Management anticipates further improvement in the rural business trajectory, supported by positive monsoon trends and improvements in rural cashflows. We model a total loan CAGR of ~25% and PAT CAGR of 28% over FY24-FY26E, with consolidated RoA/RoE of 2.7%/~14% in FY26E.
 - LTF has transformed itself into a retail franchise and would continue to deliver a sustained improvement in profitability and RoA expansion.
- Reiterate BUY with a TP of INR230 (based on 2.0x FY26E BVPS).**

Asset quality stable aided by prudent credit assessments and guardrails

- LTF has maintained a strong focus on collections. Driven by disciplined credit assessment and supported by stringent internal guardrails, its asset quality remained broadly stable, with consolidated GS3/NS3 at 3.15%/0.8%. Stage 3 PCR was also stable at ~75% during the quarter.
- Retail GS3 declined ~5bp QoQ to 2.8%, while Retail NS3 was stable at 0.6%.
- Management guided that over the next 10-12 quarters, there will be resolutions in the SR portfolio that might result in provision releases and recoveries. We model total credit costs (as % of average assets) of ~2.0%/2.1% in FY25/FY26E.

NIM expansion supported by an improving retail mix

- Reported NIM rose ~15bp QoQ to 9.3%. However, Consol. NIMs + Fees declined ~15bp QoQ to 11.1% in 1QFY25, due to a sequential decline in fee income. 4QFY24 fee had a one-time positive income impact of ~20bp.
- Spreads (calc.) rose ~10bp QoQ to ~9%. CoB declined ~10bp QoQ to 6.9%. Management guided that it will maintain yields in a way to prevent any compression in its NIM + Fee income. We model NIMs of ~10% in FY25/26.

Key highlights from the management commentary

- Both secured and unsecured businesses of LTF will grow, resulting in a largely stable secured-unsecured product mix. The company is taking a calibrated approach to growing its personal loan portfolio and has also incorporated manual underwriting in its credit decisioning.
- Collections and asset quality are holding up well in the MFI business, which is largely an outcome of the discipline in collections and better customer selection. Management does not expect any impact of MFIN directives on LTF's loan growth or asset quality.

Research analyst – **Abhijit Tibrewal** (Abhijit.Tibrewal@motilaloswal.com)

Nitin Aggarwal (nitin.aggarwal@motilaloswal.com) | **Gautam Rawtani** (gautam.rawtani@motilaloswal.com)

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Valuation and view

- LTF has invested in process automation, security, and customer journeys. This, along with partnerships with e-aggregators, should lead to a stronger and more sustainable retail loan growth. Over the past few quarters, the company has consistently delivered strong growth in its retail loan book.
- We estimate a PAT CAGR of 28% over FY24-26, with a consolidated RoA/RoE of 2.7%/~14.0% in FY26. We reiterate our **BUY rating on the stock with a TP of INR230 (based on 2.0x FY26E BVPS)**.

Quarterly performance

(INR m)

Y/E March	FY24				FY25E				FY24	FY25E	1QFY25E	v/s Est.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Interest Income	31,165	31,685	33,063	33,226	34,526	36,253	39,515	40,674	129,139	150,968	34,887	-1
Interest Expenses	13,638	13,249	13,534	13,351	13,514	14,460	15,472	16,507	53,772	59,953	13,885	-3
Net Interest Income	17,527	18,436	19,529	19,875	21,012	21,792	24,043	24,167	75,367	91,015	21,002	0
Change YoY (%)	14.3	11.9	7.2	12.6	19.9	18.2	23.1	21.6	11.4	20.8	19.8	
Other Operating Income	1,068	453	2,277	3,492	3,318	2,613	400	1,494	6,667	7,825	2,822	18
Net Operating Income	18,596	18,889	21,805	23,367	24,330	24,406	24,443	25,661	82,034	98,839	23,824	2
Change YoY (%)	11.7	7.5	12.9	31.9	30.8	29.2	12.1	9.8	15.1	20.5	28.1	
Other income	1,535	2,682	473	56	2	1,609	1,750	1,147	4,745	4,508	767	-100
Total Income	20,130	21,572	22,278	23,422	24,332	26,015	26,193	26,807	86,779	103,347	24,591	-1
Change YoY (%)	11.1	15.0	11.9	18.7	20.9	20.6	17.6	14.5	13.4	19.1	22.2	
Operating Expenses	7,782	8,598	8,896	9,803	9,656	10,403	10,497	10,934	35,079	41,490	9,650	0
Change YoY (%)	18.3	25.2	19.9	24.6	24.1	21.0	18.0	11.5	22.1	18.3	24.0	
Operating Profits	12,348	12,974	13,382	13,619	14,676	15,612	15,696	15,873	51,701	61,857	14,942	-2
Change YoY (%)	6.9	9.1	7.2	7.3	18.9	20.3	17.3	16.6	6.3	19.6	21.0	
Provisions	5,212	5,000	5,142	6,679	5,453	5,948	5,701	5,822	21,410	22,924	6,094	-11
Profit before Tax	7,136	7,974	8,240	6,940	9,223	9,664	9,995	10,052	30,290	38,933	8,847	4
Tax Provisions	1,831	2,032	1,847	1,410	2,370	2,464	2,549	2,350	7,119	9,733	2,079	14
Profit after tax	5,309	5,951	6,402	5,539	6,855	7,200	7,446	7,702	23,171	29,200	6,768	1
Change YoY (%)	103	47	41	11	29	21	16	39	43	26	28	
Key Operating Parameters (%)												
Rep. Net Income (% of Avg Assets)	9.64	10.84	10.92	11.25	11.08							
Rep. Cost of funds (%)	7.77	7.79	7.81	7.82	7.85							
Cost to Income Ratio	38.7	39.9	39.9	41.9	39.7							
Rep Credit Cost	2.33	2.58	2.52	3.23	2.37							
Tax Rate	25.7	25.5	22.4	20.3	25.7							
Balance Sheet Parameters												
Gross Customer Assets (INR B)	786	787	818	856	887							
Change YoY (%)	-10.8	-12.6	-7.5	5.8	12.9							
Borrowings (INR B)	754	766	760	765	803							
Change YoY (%)	-7.8	-10.3	-11.9	-7.8	6.5							
Customer Assets /Borrowings (%)	104	103	108	112	110							
Asset Quality Parameters (%)												
GS 3 (INR B)	31.7	25.8	26.3	27.0	27.9							
Gross Stage 3 (%)	4.0	3.3	3.2	3.2	3.1							
NS 3 (INR B)	9.1	6.3	6.5	6.6	6.9							
Net Stage 3 (%)	1.6	0.8	0.8	0.8	0.8							
PCR (%)	71.4	75.7	75.3	75.5	75.3							
Return Ratios (%)												
ROAA	2.1	2.4	2.5	2.2	2.7							
ROAE	9.4	10.8	11.4	9.5	11.6							

E: MOFSL Estimates

Retail momentum continues; MFI, 2Ws, and home loans deliver strong growth

- Total disbursements grew 21% YoY to ~INR150b, driven by ~33% YoY growth in retail disbursements to ~INR148b in 1QFY25. Wholesale disbursements declined ~85% YoY to INR1.8b.
- The total loan book grew ~13% YoY and ~4% QoQ to ~INR887b. Wholesale loans continued to run down and declined ~70% YoY to ~INR43b (PQ: ~INR55b).
- LTF shared that ~40% of its MFI customers are exclusive and non-leveraged. With plans to add ~250-300 MFI branches, the company aims to reduce its dependency on its top three states—Tamil Nadu, Karnataka, and Bihar—while upholding high standards in center meeting discipline and attendance.
- LTF has reached a penetration level of ~75% in its 2W dealer network, and it plans to deepen its penetration to ~85%. In addition, LTF plans to introduce loyalty programs for its dealerships, which will aid in getting preferential lead allotment. The company expects 2W demand to remain robust supported by favorable monsoons and healthy rural cashflows.
- In the retail segment, MFI, home loans, 2Ws, and SME continued to exhibit strong growth, with retail now contributing ~95% to the loan mix. We model a total loan CAGR of ~25% over FY24-26E.



Highlights from the management commentary

Business update

- Highest-ever quarterly PAT of ~INR6.86b (up 29% YoY) and the steady-performance trajectory will continue through the course of FY25.
- Retail quarterly disbursements at INR148.4b (up 33% YoY). Disbursements remained almost at the same levels as the last quarter.

Quarterly performance

- Retail mix stood at ~95%
- Retail loan book grew 31% YoY
- Consol. GS3/NS3 stood at 3.14%/0.8% as of Jun'24
- Consol. RoA stood at 2.7% in 1QFY25. LTF is working towards improving the consol. RoA to be in the range of 2.8-3.0%
- NIM + Fees rose ~145bp YoY
- Weighted CoB remained stable
- Retail book stood at INR844b, up 31% YoY; Consol. loan book grew 13% YoY

Outlook on monsoons and rural/urban consumption

- Urban consumption is expected to remain steady and there should be buoyancy in rural consumption
- Rainfall in Jul'24 has wiped out the ~10% deficit of Jun'24.

Rural business finance

- Highest-ever quarterly disbursements of INR57.7b
- With the current positive monsoon trajectory, the business should improve

Urban business finance

- 2W business: Disbursements were up 52% YoY, aided by activation of new dealership points.
- LTF achieved ~150% YoY growth in electric 2W finance
- Personal loan disbursements stood at INR11.78b. Book size was ~INR66.6b, up 11% YoY. Risk calibrated growth was focused on salaried prime customers through addition of DSAs.
- SME finance stood at INR44.7b

MFI business

- Collections efficiency and collections discipline are a culture.
- Prudent credit assessment and various guardrails which have been put in place
- ~40% of LTF's customers are exclusive customers who are non-leveraged.
- Guided for portfolio quality to remain stable and confident of delivering strong loan growth. Asset quality metrics are quite satisfactory.
- It keeps a watch on the leverage levels of the customer - this has helped LTF maintain high CE on the ground.
- TN, KAR, and Bihar are the top 3 states. Asset quality, in all these states, was stable. It is trying to reduce the over-dependence on all its three states.
- Will be looking to add 250-300 MFI branches over the next one year.

- MFIN guardrails does not impact LTF, since its internal guardrails are already more stringent than those put out by MFIN. The company does not lend to customers who have more than three lenders (including LTF) and it already had a maximum capping.
- Center meeting discipline has been good and the company has not received any adverse feedback on laxity in attendance in center meetings.

Personal loans (PL)

- Focused on prime and near-prime for salaried individuals. Being very cautious and judicious on personal loans.
- Earlier used to do machine learning algorithm-based underwriting and has now introduced even manual underwriting in PL.

Home loans

- Average yields in Home Loans are in the range of ~9% (prime and near-prime segments).
- Launch of complete Home Loan offering by LTFH - Home Decor Finance has witnessed good customer acceptance

Two-Wheelers

- India sells 1.2-1.4m two-wheelers per month; LTFH is present in the prime and near-prime segments and it weeded out the sub-prime segments.
- Currently, it has ~75% penetration of the dealer universe and it wants to increase the penetration to ~85%. It is also working on introducing the loyalty program for its dealer partners so that it gets the leads on a preferential basis.
- Focus area is to reduce the "approved but not disbursed" cases
- Has put up a separate EV channel and a separate Superbike channel.
- ATS of 2W Finance has been going up
- It is increasing distribution, improving customer quality, and raising the 2W ticket sizes.
- 2W demand should do well on the back of good monsoons and demand should further improve by the festive period
- Prime IRR: 15% and Non-Prime IRR: 19% and Blended IRR in 2W is 17.5%

Five Pillar Strategy

- Customer acquisition: Deepening the customer acquisition funnel both horizontally and vertically
- Sharpening Credit Underwriting: Deployment of beta version of proprietary credit underwriting engine called 'Cyclops'
- Implementing Futuristic Digital Architecture: Optimizing digital journeys to eliminate chokepoints
- Heightened Brand Visibility: Integrated Home Decor Finance is the first in the industry. Marketing Campaign for the 2W business is next-in-line
- Capability Building: 3-Tier Compliance structure reporting to Chief Compliance Office

Security Receipts

- Over the next 10-12 quarters, there will be resolutions in the SR portfolio, which will result in provision releases and recoveries.

Liabilities

- Average borrowings in 1QFY25 stood at INR691b (Average borrowings stood at INR705.6b in 1QFY24)

Yields and Margins

- Wholesale (portfolio) yields stood at 11.5-12.0%; Retail yields (portfolio basis) stood at 16%
- Yields will be maintained at levels so that there is no impact on NIM + Fee income.

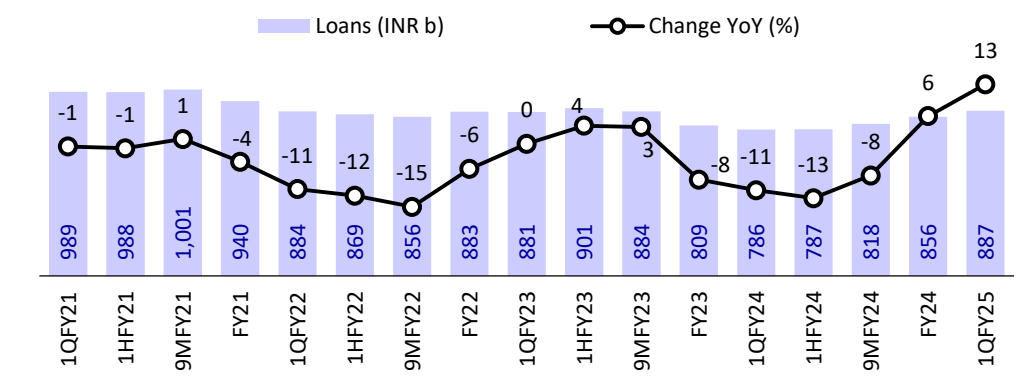
Others

- Investments in technology and brand building will continue for the next couple of quarters.
- Sustained focus on improving the credit parameters
- Calibrating the secured: unsecured loan mix. For the next couple of quarters, there will be growth across both secured and unsecured businesses.
- Piloted microLAP and it has been scaling up - current mix of secured and unsecured will continue for the next few quarter.

Key exhibits

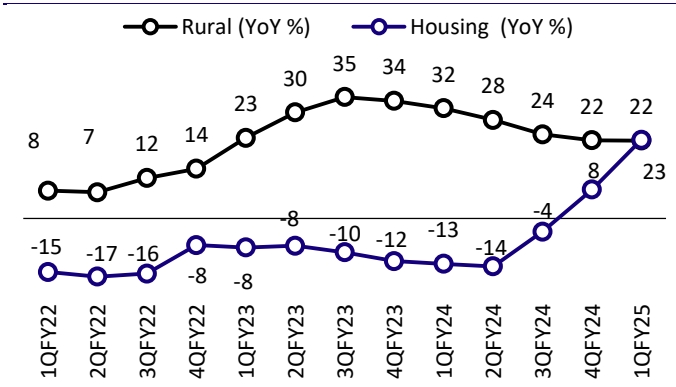
Loan book increased 13% YoY to ~INR887b

Exhibit 1: Loan book grew 4% QoQ, driven by retail book (%)



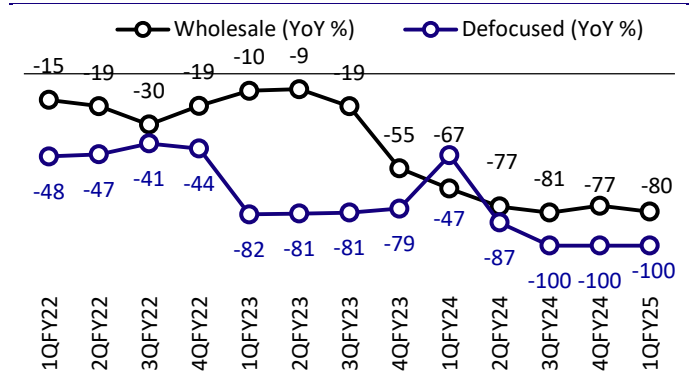
Source: MOFSL, Company

Exhibit 2: Housing finance book (including wholesale RE) increased 22% YoY



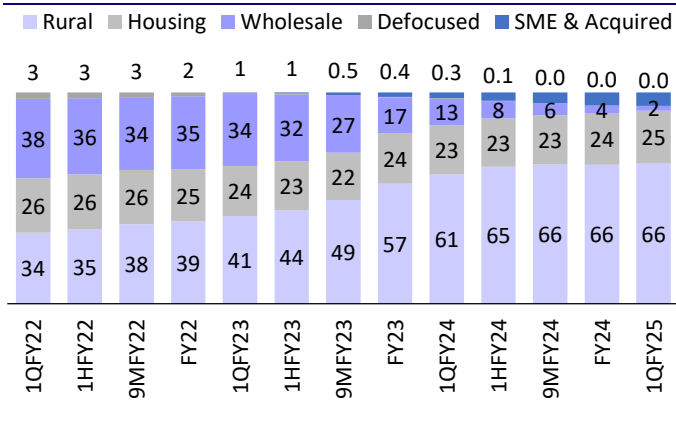
Source: MOFSL, Company

Exhibit 3: Wholesale book declined 80% YoY



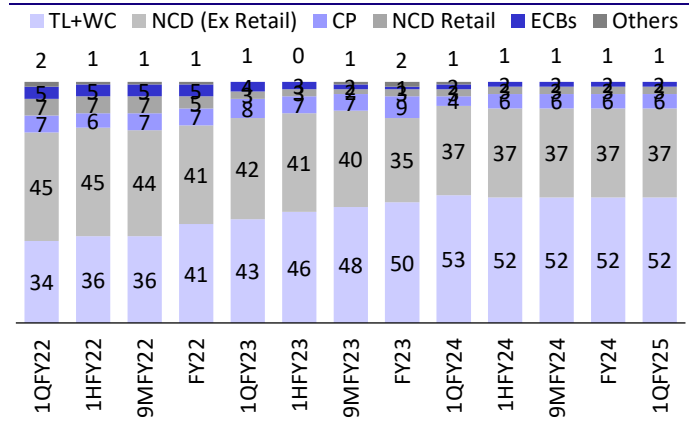
Source: MOFSL, Company

Exhibit 4: Rural finance in loan mix remained stable (%)



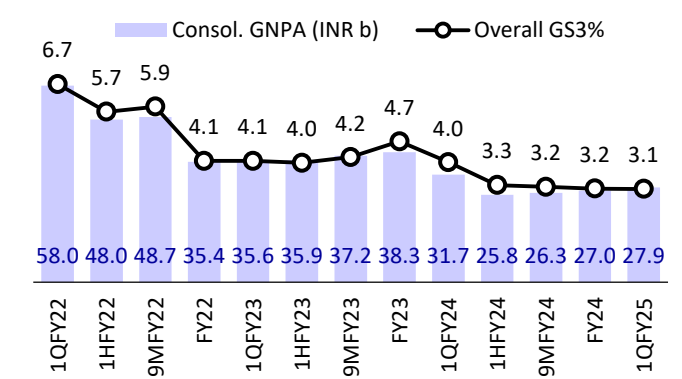
Source: MOFSL, Company

Exhibit 5: Borrowing mix (%)



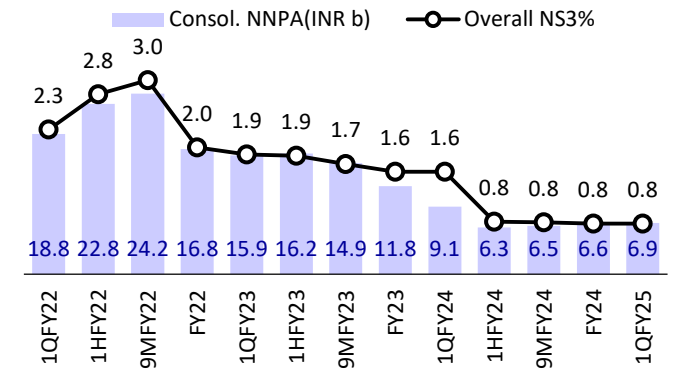
Source: MOFSL, Company

Exhibit 6: GS3 stable QoQ (%)



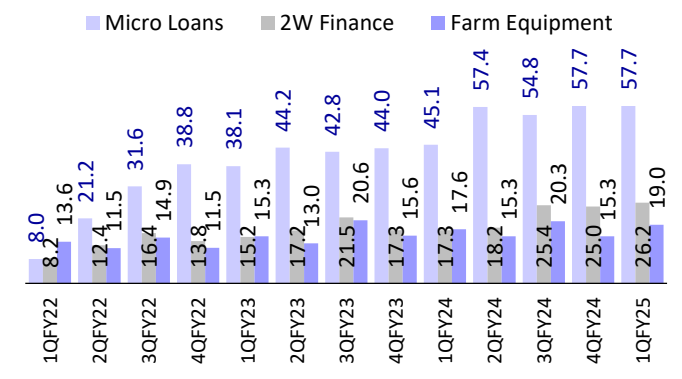
Source: MOFSL, Company

Exhibit 7: NS3 stable QoQ (%)



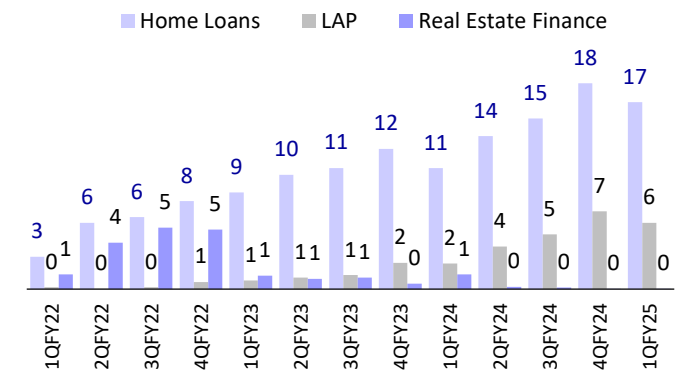
Source: MOFSL, Company

Exhibit 8: Micro-loan disbursements healthy (INR b)



Source: MOFSL, Company

Exhibit 9: LAP disbursements gradually picking up (INR b)



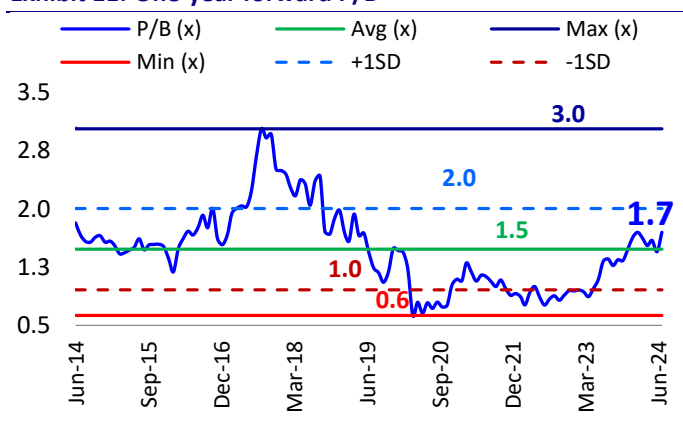
Source: MOFSL, Company

Exhibit 10: We raise our FY25E EPS by ~3% to factor in lower credit costs

INR b	Old estimates			New estimates			% change		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Total Income	86.8	103.0	126.7	86.8	103.3	127.3	0.0	0.3	0.4
Operating Expenses	35.1	40.3	45.7	35.1	41.5	47.3	0.0	3.0	3.5
Operating Profits	51.7	62.7	81.1	51.7	61.9	80.0	0.0	-1.4	-1.3
Provisions	21.4	24.8	30.1	21.4	22.9	29.7	0.0	-7.5	-1.2
PBT	30.3	38.0	51.0	30.3	38.9	50.3	0.0	2.5	-1.4
Tax	7.1	9.5	12.8	7.1	9.7	12.6	0.0	2.5	-1.4
PAT	23.2	28.5	38.3	23.2	29.2	37.7	0.0	2.5	-1.4
Loan book	814	1,021	1,292	814	1,013	1,273	0.0	-0.8	-1.5
Borrowings	765	991	1,240	765	962	1,209	0.0	-2.9	-2.5

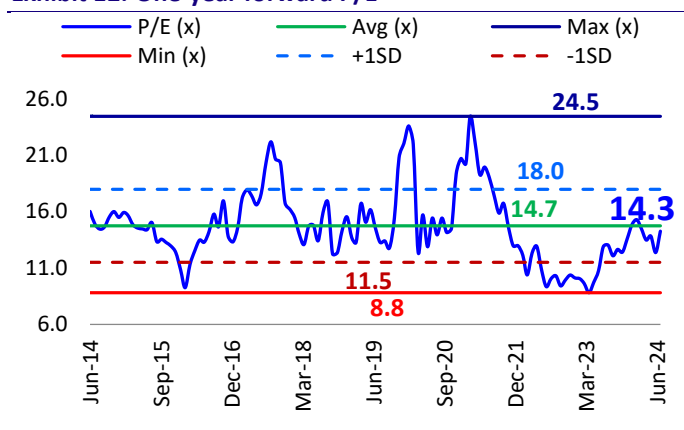
Source: MOFSL, Company

Exhibit 11: One-year forward P/B



Source: MOFSL, Company

Exhibit 12: One-year forward P/E



Source: MOFSL, Company

Financials and Valuation

Income statement								(INR m)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Interest Income	1,16,403	1,32,447	1,31,049	1,17,042	1,25,651	1,29,139	1,50,968	1,90,850	
Interest Expended	68,600	75,136	71,999	57,494	57,972	53,772	59,953	77,083	
Net Interest Income	47,803	57,311	59,049	59,548	67,679	75,367	91,015	1,13,767	
Change (%)	39.8	19.89	3.0	0.8	13.7	11.4	20.8	25.0	
Other Operating Income	13,494	8,594	5,732	6,053	3,569	6,667	7,825	9,017	
Net Operating Income	61,297	65,905	64,782	65,601	71,248	82,034	98,839	1,22,785	
Change (%)	28.7	7.5	-1.7	1.3	8.6	15.1	20.5	24.2	
Other Income	3,118	3,726	6,276	3,928	5,268	4,745	4,508	4,508	
Net Income	64,415	69,632	71,058	69,529	76,515	86,779	1,03,347	1,27,293	
Change (%)	33.7	8.1	2.0	-2.2	10.0	13.4	19.1	23.2	
Operating Expenses	19,215	19,785	19,749	23,946	28,732	35,079	41,490	47,266	
Operating Profits	45,200	49,846	51,309	45,582	47,783	51,701	61,857	80,026	
Change (%)	31.8	10.3	2.9	-11.2	4.8	8.2	19.6	29.4	
Provisions/write offs	14,681	23,046	36,357	30,833	25,404	21,410	22,924	29,713	
PBT	30,520	26,801	14,952	14,750	22,379	30,290	38,933	50,313	
Tax	8,200	9,798	5,463	4,256	6,464	7,119	9,733	12,578	
Tax Rate (%)	26.9	36.6	36.5	28.9	28.9	23.5	25.0	25.0	
PAT before pref dividend	22,320	17,003	9,489	10,494	15,915	23,171	29,200	37,735	
Change (%)	74.7	-23.8	-44.2	10.6	51.7	45.6	26.0	29.2	
Preference Dividend	0	0	0	0	0	0	0	0	
PAT to equity shareholders (incl. extraordinary items)	22,320	17,003	9,489	10,704	16,216	23,171	29,200	37,735	
Change (%)	75	-24	-44	13	52	43	26	29	

Balance sheet								(INR M)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	
Equity Share Capital	19,988	20,048	24,695	24,740	24,797	24,889	24,889	24,889	
Reserves & Surplus	1,14,498	1,26,876	1,63,038	1,74,737	1,90,487	2,09,495	2,32,473	2,62,616	
Borrowings	9,15,070	9,38,945	8,85,558	8,52,012	8,30,435	7,65,409	9,62,346	12,09,002	
Change (%)	21.6	2.6	-5.7	-3.8	-2.5	-7.8	25.7	25.6	
Other liabilities	10,995	9,577	16,427	17,533	17,903	27,383	28,707	30,098	
Total Liabilities	10,60,551	10,95,447	10,89,717	10,69,022	10,63,621	10,27,176	12,48,415	15,26,605	
Loans	9,13,246	9,14,625	8,70,303	8,24,694	7,51,546	8,13,594	10,12,996	12,72,634	
Change (%)	18.5	0.2	-4.8	-5.2	-8.9	8.3	24.5	25.6	
Investments	86,408	59,793	88,721	1,19,169	1,43,662	1,23,849	1,30,041	1,36,543	
Change (%)	63.0	-30.8	48.4	34.3	20.6	-13.8	5.0	5.0	
Net Fixed Assets	11,660	11,621	11,621	5,306	5,573	5,550	5,827	6,119	
Other assets	49,237	1,09,408	1,19,071	1,19,852	1,62,841	84,183	99,550	1,11,309	
Total Assets	10,60,551	10,95,447	10,89,717	10,69,022	10,63,621	10,27,176	12,48,415	15,26,605	

E: MOFSL Estimates

Financials and Valuation

Ratios	(%)							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Spreads Analysis (%)								
Avg. Yield on Loans	13.8	14.5	14.7	13.8	15.9	16.5	16.5	16.7
Avg. Cost-Int. Bear. Liab.	8.2	8.1	7.9	6.6	6.9	6.7	6.9	7.1
Loan Spreads	5.6	6.4	6.8	7.2	9.1	9.8	9.6	9.6
NIM on loans	5.7	6.3	6.6	7.0	8.6	9.6	10.0	10.0
Profitability Ratios (%)								
Int. Expended/Int. Earned	58.9	56.7	54.9	49.1	46.1	41.6	39.7	40.4
Other Inc./Net Income	25.8	17.7	16.9	14.4	11.5	13.2	11.9	10.6
Op. Exps./Net Income	29.8	28.4	27.8	34.4	37.6	40.4	40.1	37.1
Empl. Cost/Op. Exps.	42.9	53.7	51.0	47.5	49.1	51.5	53.1	54.1
Provisions/PPoP (%)	32.5	46.2	70.9	67.6	53.2	41.4	37.1	37.1
Asset Quality (%)								
Gross NPAs	55,490	50,370	45,040	35,430	38,320	26,980	28,525	31,991
Gross NPAs to Adv.	5.9	5.3	5.0	4.2	4.7	3.2	2.8	2.5
Net NPAs	21,740	20,780	13,770	16,780	11,780	6,610	7,565	7,856
Net NPAs to Adv.	2.4	2.3	1.6	2.0	1.6	0.8	0.7	0.6
PCR (%)	60.8	58.7	69.4	52.6	69.3	75.5	73.5	75.4
Return ratios and Capitalisation (%)								
RoE	18.0	12.1	5.7	5.5	7.8	10.3	11.9	13.9
RoA	2.3	1.6	0.9	1.0	1.5	2.2	2.6	2.7
Debt to Equity (x)	6.8	6.4	4.7	4.3	3.9	3.3	3.7	4.2
Average Assets/Equity (x)	7.8	7.7	6.5	5.6	5.1	4.6	4.6	5.1
VALUATION								
Book Value (INR)	67.3	73.3	76.0	80.6	86.8	94.2	103.4	115.5
Price-BV (x)	2.7	2.5	2.4	2.3	2.1	2.0	1.8	1.6
Adjusted Book Value (INR)	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Price-BV (x)	18.5	18.5	18.5	18.5	18.5	18.5	18.5	18.5
OPS (INR)	11.2	8.5	3.8	4.2	6.4	9.3	11.7	15.2
EPS Growth YoY	74.4	-24.1	-54.7	10.4	51.3	45.0	26.0	29.2
Price-Earnings (x)	16.6	21.8	48.1	43.6	28.8	19.9	15.8	12.2
EPS (INR)	11.2	8.5	3.8	4.3	6.5	9.3	11.7	15.2
EPS Growth YoY	74.4	-24.1	-54.7	12.6	51.2	42.4	26.0	29.2
Price-Earnings (x)	16.6	21.8	48.1	42.8	28.3	19.9	15.8	12.2
Dividend per share (INR)	1.0	0.9	0.0	0.5	2.0	2.5	3.1	3.4
Dividend yield (%)	0.5	0.5	0.0	0.3	1.1	1.4	1.6	1.8

E: MOFSL Estimates

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Nainesh Rajani

Email: nainesh.rajani@motilaloswal.com

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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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