L&T Finance Ltd.

Q1 FY25 Earnings Call Transcript

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Management Personnel:

Mr. Sudipta Roy (Managing Director & Chief Executive Officer)

Mr. Sachinn Joshi (Chief Financial Officer)

Mr. Raju Dodti (Chief Operating Officer)

Mr. Karthik Narayanan (Head – Strategy and Investor Relations)

Moderator:

Ladies and gentlemen, good day, and welcome to L&T Finance Limited Q1FY25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touch-tone phone. Please note that this conference is being recorded.

We have with us today: Mr. Sudipta Roy, Managing Director and CEO; Mr. Sachinn Joshi, CFO; and Mr. Raju Dodti, COO; and other members of the senior management team.

Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the conference call. Only publicly available documents will be referred to for discussions during interactions in the call. While all efforts would be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call. Further, some of the statements made on today's call may be forward-looking in nature. A note to this effect is provided in the Q1 results presentation sent out to all of you earlier.

I would now like to invite Mr. Sudipta Roy to share his thoughts on the company's performance and the strategy of the company going forward. Thank you, and over to you, sir.

Sudipta Roy:

A very good morning to all of you. I welcome you to the investor call for the first quarter of FY25 for L&T Finance. With me on the call are our CFO, Mr. Sachinn Joshi, our Chief Operating Officer, Mr. Raju Dodti, and the senior management teams of L&T Finance.

During my last interaction with you, at the end of FY24, I had informed all of you about the various investments that we are making for strengthening the company and upgrading our capabilities across domains. In this call, I will provide further details about the progress that we have made during the quarter. As far as our core business franchise is concerned, it stands in a satisfactory shape which is evidenced by the numbers posted by us in Q1FY25 with the highest ever quarterly PAT, and I'm hopeful that in FY25, our steady performance trajectory will continue.

Today's call is divided into two sections, taken up sequentially by myself and our CFO, Mr. Sachinn Joshi, who will be talking about the overall business metrics and the financial performance.

Post our opening commentary, we'll be happy to take questions on the call.

Q1FY25 Highlights

I would like to start the call by sharing with all of you that our performance during the quarter has been upto our expectations and in line with the guidance provided by us in the last few quarters. We have registered the highest ever quarterly Consol PAT of Rs. 686 Cr, a growth of 29% year on year (YoY), on the back of healthy Retail disbursements growth of 33% YoY with Retail quarterly disbursements standing at Rs. 14,839 Cr.

Our Retail book now stands at Rs. 84,444 Cr, a growth of 31% YoY. These numbers reflect the strength of the Retail franchise that we have created over the years which has been further sharpened by our 5 pillar execution strategy and I am happy to state that the Company is now sustainably accelerating its journey towards becoming a top-class, digitally enabled and a customer focused retail financier.

We are continuously working towards providing results that are predictable and sustainable quarter on quarter and our Q1 result is another step in that direction

Lakshya 2026 Goals at Consol Level: Our performance

Having met Lakshya 2026 goals at the Retail level 2 years in advance in Q3FY24, we re-oriented ourselves for convergence at the consolidated level by FY26 and took new enhanced targets for ourselves. Our quarterly performance against the new targets are as follows:

- Our Lakshya goal was to achieve Retailisation of >95%. I am pleased to share that we have reached the 95% level this quarter
- Our Lakshya goal was to maintain Retail book growth at >25% CAGR. Against this, in Q1FY25, we achieved a growth of 31% YoY, which was coincidentally exactly the same growth registered by us in the last quarter as well
- While we have maintained the Retail GS3 & NS3 levels within the threshold levels (Retail GS3 at 2.79% and NS3 at 0.62% for Q1FY25), we are working towards converging Consol GS3 & NS3 below 3% & 1% respectively. The corresponding Consol numbers stood at 3.14% and 0.79% at the end of Q1FY25
- On the RoA front, we had communicated in the quarter gone by that as far as tracking RoA is concerned, we are moving from tracking Retail RoA to Consol RoA in the range of 2.8%-3.0% as per our original Lakshya 2026 targets. I am happy to share that our Consol RoA for Q1FY25 stands at 2.68%, up 55 bps YoY, which in the last year same quarter stood at 2.13%.

In this regard, I would like to draw your attention to Page No. 5 of the Investor Presentation, wherein we have provided the journey of our RoA trajectory over the last 10 quarters in great detail, since the Lakshya goals were adopted. You will be happy to see that we have been making steady progress towards achieving our stated Lakshya 2026 goals.

I would now like to quickly run you through the key highlights of our performance in Q1FY25.

- Highest ever quarterly Consol PAT of Rs. 686 Cr, a growth of 29% YoY
- Quarterly Retail disbursements at Rs. 14,839 Cr, a growth of 33% YoY. Our acquisition engines and execution strategy ensured that the disbursements remained almost at the same level as last quarter, wherein we had posted the highest ever quarterly retail disbursement figures.
- Q1FY25 Retail book stood at Rs. 84,444 Cr vs. Rs. 64,274 Cr in Q1FY24, implying a growth of 31% YoY. Consol book growth has picked up pace growing at 13% YoY reaching Rs. 88,717 Cr in Q1FY25
- As shared in the last 3 quarterly updates, the 5 Pillar strategy continues to be central to our roadmap to the future. The organisation continues to granularly execute the 5 Pillar strategy, details of which are available from Slide No. 11 in the investor presentation
- Sustained focus towards improvement in credit parameters across businesses ensured Consol GS3 and NS3 reaching 3.14% and 0.79%, respectively. The Provision Coverage Ratio (PCR) currently stands at comfortable 75%, up from 71% during the same period last year

Macro-economic outlook:

Now, I would like to give you some flavour on the Macro-economic scenario and progress of monsoon before proceeding to the 5 pillars of our execution strategy.

As far as the global economy is concerned, growth forecasts for 2024 have been raised in recent months by multilateral organisations and rating agencies during Q1FY25. These upward revisions reflect higher growth prospects, especially for India.

The country's GDP growth rate outlook for FY25 was revised by the RBI from 7% to 7.2%, with S&P Global upgrading India's sovereign rating outlook to 'positive' from 'stable'. High frequency indicators indicate a continued momentum in manufacturing and services sector activities so far in Q1FY25. However, pockets of concern remain around the ongoing weakness in rural demand, which is expected to recover as per the latest monsoon progression and distribution estimates for the country coupled with an expectation of enhanced fiscal support to aid rural consumption. Urban consumption, on the contrary, is projected to remain steady in FY25, albeit uneven.

As far as retail loan growth momentum is concerned, retail loans in the non-agri space are projected to grow healthily during the year, aided by positive macro indicators and steady appetite for home loans, two wheelers and SME loans.

On the monsoon front, IMD has predicted a high probability (61%) of above normal south-west monsoon rains in 2024 with La Nina conditions likely to develop during Aug-Sep'24, with some areas in Northwest, East & Northeast likely to receive below normal rainfall.

While monsoon progression and distribution remained skewed in June, it has gradually progressed in July. The "active" phase of monsoon progress, which commenced in July, has already wiped out the overall 10% deficit witnessed in June.

To conclude, a few challenges still persist for the NBFC sector in FY25, namely - access to funding at competitive rates, tight liquidity conditions, the 'higher-for-longer' global policy rate regime and elevated competitive pressure especially from banks. We will continue to keep a close watch on the emerging scenarios, across products and customer segments to shape our policies and chart out the future course of action accordingly.

As mentioned earlier, I would now like to dive deeper into the '5 pillars of execution' which will help us in creating a sustainable & predictable retail franchise:

1. **Customer Acquisition -** As far as the first execution pillar is concerned, we are continuously working on deepening the customer acquisition funnel both, horizontally i.e. greater geographical coverage as well as vertically, which is greater counter share at dealer points. In this quarter as well, the numbers reflect the continued momentum of horizontal and vertical deepening. For instance, the number of new villages / zero disbursement villages activated for Rural Group Loans & MFI (RBF) stood at 21,832 in Q1FY25, as against 21,524 villages in the last quarter. Similarly, our Two-Wheeler distribution points increased to 11,178 from 10,711 in Q4FY24. This granular distribution surface area increase has enabled us to continue our growth momentum in both RBF and TW businesses, while maintaining a healthy and a risk calibrated portfolio. We have given out details for all relevant lines of business in slide nos. 12 & 13 of the investor presentation.
2. **Sharpening Credit Underwriting -** In the last quarter, I had mentioned that one of the most important focus areas for us is building and continuously sharpening our next gen credit underwriting models. The highlight of this quarter is the deployment of the beta version of our proprietary digital credit engine, 'Project Cyclops', the first of its kind engine in the industry which facilitates a thorough credit underwriting on a multi-dimensional axis. The AI-ML powered underwriting engine facilitates an in-depth assessment of the customer's potential by ingesting bureau, account aggregator and alternate trust signals at scale using ML based ensemble scorecards built after an extensive data analysis and overlay of historical credit performance data. The same has been explained in greater detail on page no. 14 of the investor presentation.

   The beta version of this engine, which is currently operating with 14 ML scorecards has been deployed at various Two-Wheeler dealers in the country and the initial trends are encouraging. In the next phase, we intend to scale up deployment in the Two-Wheeler Finance business, further amplify the data sources and eventually implement it across all our lines of businesses starting with Personal Loans, Farmer Finance & SME Finance by the end of this financial year.

   With 'Project Cyclops', we are hopeful that our underwriting capabilities will become more comprehensive and accurate, enabling us to make faster and more informed decisions at scale. I am sure that this engine will significantly add to the underwriting depth of the Company and help create a deeper moat in our fulcrum businesses.

Additionally, you may refer to page nos. 15 and 16 of the investor presentation, wherein we have explained the strength of our credit guardrails in the Rural Business Finance business revolving around customer leverage and group indebtedness, which leads to enhanced portfolio resilience.

3. **Futuristic Digital Architecture -** We are committed to becoming one of the pre-eminent technology driven lenders in the country. As detailed in the last quarter, our technology efforts are divided on 4 quadrants, namely **designing superior customer experience, application & process engineering**, augmenting **IT infrastructure** and strengthening **information security**. In the last quarter, the BRAKE App, our in-house collections application went live. I had informed you that we had started working on a revamped customer portal and the next generation of our Planet App. It is heartening to share with all of you that the app, which has emerged as an important servicing tool for our customers has achieved a significant milestone of crossing 10 million downloads in Q1FY25. We also launched PLANET 2.0, which is aimed at enhancing the experience of our customers. During the quarter, while we launched certain journeys like DIY Home Loan, others were revamped like Rural Business Finance sourcing app, and customized to meet user expectations, in line with our philosophy of customer centricity. We will constantly harness cutting-edge technology to simultaneously enhance the customer experience as well as improving our operational metrics.
4. **Brand Visibility -** In my last interaction with you, I had stated that we will augment our brand visibility to build customer mindshare for L&T Finance in our operating lines of businesses. Over the last few quarters, we have invested in building visibility around high traffic customer points like airports and in-flight advertising on the urban side and wall paintings and melas on the rural side. As I had mentioned in the last call, our multi-lingual Sonic Identity, which was launched a few months back is now being used both internally and externally for building greater recall and association with the brand.

   During the quarter, we launched our first integrated marketing campaign for our Housing Finance business 'The Complete Home Loan', which generated sizeable leads for us and aided in overall lift in awareness of our brand. The integrated Home Décor Finance proposition is a first of its kind in the industry and addresses a whitespace in the home buying process for our customers. In the coming quarters, we will be working on Integrated Marketing Campaigns for our other businesses, with the TW business being next in line.
5. **Capability Building -** On the capability building front, we have further strengthened the Risk and Compliance culture in the organisation by creating a 3-tier compliance structure i.e. a Central compliance, a Business compliance and a Regional compliance structure, reporting to the Chief Compliance Officer. To ensure the robustness of our compliance framework, a separate compliance testing team has been created for continuous monitoring and testing.

   I am happy to announce that we have been certified as a Great Place to Work for the period May 2024 to May 2025. This certification is based on a survey and feedback from over 21,000 employees and underscores our continuous dedication to create a workplace that fosters growth, development, and well-being for all employees. At LTF, we are continuing to invest in our people and culture, thereby driving excellence in business and other related spheres. This recognition also highlights our dedication to fostering diversity and inclusion, promoting employee engagement, and developing talent. We are proud of this recognition and will continue to aim for excellence in all aspects of our organization.

Now, I will request our CFO, Mr. Sachinn Joshi to take you through the financial updates for the quarter.

Financial updates

Sachinn Joshi:

Thank You, Sudipta. As always, I will be walking you through the financial performance of the company for the quarter gone by.

Quarterly Performance:

- Our Net Interest Margin + Fees at 11.08% vs. 9.64%, is up 144 bps YoY owing to change in portfolio mix and Weighted Average Cost of Borrowing remaining stable
- Highest ever quarterly Consol PAT at Rs. 686 Cr was up 29% YoY
- Healthy quarterly retail disbursements of Rs. 14,839 Cr, up 33% YoY
- Retail book stands at Rs. 84,444 Cr (up 31% YoY) on the back of healthy retail disbursements during Q1FY25. Our Consol book stands at Rs. 88,717 Cr. This is the first time we have shown a double digit growth after a long period of time, this is up 13% YoY
- Consol RoA stands at 2.68%, up 55 bps YoY
- Consol RoE at 11.58%, up 186 bps YoY

Retail Businesses:

Rural Business Finance

The business registered highest ever quarterly disbursements of Rs. 5,773 Cr (up 28% YoY). The book size crossed Rs. 25,000 Cr milestone in Q1FY25.

Farmer Finance

In Farmer Finance, disbursements stood at Rs. 1,903 Cr in Q1FY25 (up 8% YoY & 24% QoQ). This has led to our book size reaching Rs. 14,204 Cr, reflecting a growth rate of 8% YoY. With the current positive trajectory of the monsoons, we are hopeful that this business momentum will improve as compared to the previous year.

Urban Finance

This segment, which comprises of Two-Wheelers, Personal Loans and Home loans / LAP businesses, saw a 44% YoY jump in overall quarterly disbursements and a 32% YoY jump in the book size, which increased from Rs. 29,261 Cr in Q1FY24 to Rs. 38,653 Cr in Q1FY25.

- **Two-Wheeler Finance:** The TW business registered robust disbursements of Rs. 2,621 Cr in the quarter, which is more than the disbursements made in a festive quarter (Q3FY24 disbursement at Rs. 2,540 Cr). The disbursements were up 52% YoY from Rs. 1,726 Cr in the same quarter last year. The growth for the segment was aided by activation of new dealership points during the quarter, as well as continued focus on Prime disbursements. Additionally, LTF achieved 150% YoY growth in EV vehicles financed and received a strong reception for its offering under the Superbike segment. The book size has crossed Rs. 12,000 Cr milestone (Rs. 12,025 Cr), up 31% YoY.

- **Personal Loans:** This business witnessed disbursements worth Rs. 1,178 Cr, as against Rs. 1,162 Cr in Q1FY24 and the book size stood at Rs. 6,667 Cr, an increase of 11% YoY. Risk calibrated growth in this segment was aided by new digital processes and expansion of physical distribution through the DSA channel focusing on salaried prime customers.

- **Retail Housing:** The quarterly disbursements stood at Rs. 2,245 Cr (up 73% YoY). The book size reached closer to the Rs. 20,000 Cr milestone, an increase of 42% YoY. Sustained business momentum in this business through collaborative launches with prime developers across top locations. Additionally, the launch of LTF's 'The Complete Home Loan' offering across 11 locations drove higher lead generation which should lead to tangible results over the next few quarters. The Home Décor finance package of The Complete Home Loans programme has seen a good customer acceptance and we expect increased penetration of this add-on to lead to greater customer stickiness as well as higher portfolio yields.

- **SME Finance:** Our Q1FY25 disbursements stood at Rs. 978 Cr, up 61% YoY. The book size reached Rs. 4,471 Cr in Q1FY25. Strong growth in business volumes were aided by focus on building additional channels to diversify the existing sourcing funnels.

I will now hand over the call back to Sudipta to make his closing statements

Sudipta Roy:

In conclusion I would like to state that, in the quarter gone by, we are satisfied with our progress on achieving our Lakshya 2026 goals and we will continue to remain focused on granular execution of our strategy in the quarters to come. We would like to open the floor now for questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Mahrukh Adajania from Nuvama. Please go ahead.

Mahrukh Adajania:

Sir, I have a couple of questions. Congratulations, first of all. My first question is on the MFI business, that you, of course, articulated why your collections have been consistent through the years, and that's well articulated even in your presentation when we discussed with you. However, all lenders have complained about collections this quarter, in the first quarter because of elections and heatwave. Of course, there have been state-specific issues as well, but more so to do with collections and heatwave. Sir in these conditions, how did you incentivize your collections team better than others to achieve better outcomes because everyone is complaining about collection efficiency in the first quarter. That's my first question on the MFI business.

And the other one is that -- I mean what is possibly competition not doing right to have issues in MFI over the last 2 quarters, which you've not seen. So, these are my 2 questions on MFI. Then I just have some -- one more follow-up question on SRs, so in security receipts if you could give some colour on when you think a lot of realization will happen, by which year? How it's progressing? Any comments you can give either on the fair valuation or visibility of realization of SRs? That's the second part of my question.

Sudipta Roy:

Thanks, Mahrukh. I'll take your first question first. I would like to state that I think collection efficiency and collections discipline is a culture. And over the many years that L&T Finance has been present in the microfinance business, the culture of disciplined collections efforts and disciplined execution and granular execution on the ground has held us in good stead. And I think it has also helped us during this period as well. And plus, also, I would like to state the fact that our prudent credit assessment and our prudent credit guardrails administration where we not only take the household income, but also, we follow association norms, also we follow leverage norms very judiciously also has helped us to maintain a pristine asset quality. Almost 40% of our customers are our exclusive customers, who are obviously non-leveraged. So, if I look at our collection efficiency in the last quarter, our collection efficiency is holding in the range of about 99.6%-99.7% levels backed by the robust credit guardrails that we follow. With improved prospects of monsoons and monsoons have been good, till about middle of July and the progress is satisfactory, I do believe that it will lead to sort of improvement into healthy rural credit demand as well as rural incomes. And we are hoping that sort of the indications of stress that might have been visible in the first couple of months probably will dissipate on the back of a good monsoon. We expect that our portfolio quality will remain absolutely stable, and we are sort of confident of our expected growth trajectory for the rest of FY25.

Your second question was about the competition, I cannot comment on competition and the fact is that everyone follows their own practices. We are focused on making sure that whichever MFI customers that we onboard are of low risk and non-leveraged quality. And we have a very strong portfolio management practice, which actually keeps a watch on the leverage levels of the customer. And the moment we have sort of any signals of a customer getting leveraged beyond our thresholds, we stop disbursing to that customer. That actually discipline has helped us to maintain a sort of a very balanced portfolio and maintaining high collection efficiencies on ground.

As regards to the SR book, as I said in the last investor call that the resolution pathways are visible. Many of the projects which had been sort of lingering for a period of time, actually, construction has started. The secondary sale of the apartments in those under construction projects have started. We have the visibility of the cash flows. But as you understand, this is a long drawn out process. It is not something that you flip a switch, and you get an instant result. So, we'll continue our efforts. And I do hope that over a period of maybe next anywhere between about 10 to 14 quarters, that is what it will take for us to sort of come to our overall sort of granular realization of these portfolios. As we have maintained in the call previously, we are hopeful that once this process is over, it will lead to a net gain for LTF and our sort of wholesale banking teams as well as our commercial real estate teams who are monitoring these projects, they remain engaged very granularly on the ground with the developers and the promoters of these projects, and we are tracking everything in these projects very, very minutely and closely.

Moderator:

Our next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh:

Two book-keeping questions. First one is on your cost of funding and interest cost linkage. So, if we were to look at the numbers for the quarter, your interest cost is close to Rs. 1,350-odd Cr. That means that annualized run rate of Rs. 5,400-odd Cr and your average cost of borrowing you reported is 7.85% that if we do the reverse math, it suggests more like a Rs. 70,000 Cr borrowing, but your borrowing reported is Rs. 80,000-odd Cr. And even if you do the average, I mean the Rs. 70,000 Cr calculation. So, where I mean, what is sort of, I understand the daily balance method, but it's still that your cost of funding and interest cost and the borrowing. I mean struggling a bit to kind of link. That's one.

The second one is, within the part of credit cost that around Rs. 155 Cr losses on the account of derecognition of assets. But if I see the disclosures in this quarter, there has been just 1 loan -- standard loan that you have sold, that is worth Rs. 200-odd Cr. So, from where this Rs. 155 Cr, if I understand correctly typically, where loans you are selling to ARC and all typically will recognize it will go out of your loan book and sit in investment book, and that recognizes Rs. 155 Cr. So, from where this is coming if you can help. These are the 2 questions?

Sachinn Joshi:

Okay. Thank you, Avinash. The first question, let me take on the cost of borrowings. The closing book, of course, total borrowings are at Rs. 80,295 Cr. But the actual average borrowing because the book has been growing over a period of time, the average borrowing for the quarter are just Rs. 69,100 Cr. And this, if you look at, compared to the previous year, Q1FY24, the average borrowings were just about Rs. 70,559 Cr on a much lower book. The reason for that was in the last year, we had not completed the merger process, and we were running 3 different balance sheets, which meant that the liquidity was to be maintained across all the 3 balance sheets as per the LCR norms. So, the actual average borrowings being much lower. The overall growth, if you see, it is actually minus 2% growth on a YoY basis. And even over the quarter, it's just about 1%. And if you apply a weighted average cost of 7.85%, you will get the results.

Avinash Singh:

Yes, that's clear. I mean this Rs. 11,000 Cr kind of a gap between what we have seen in balance sheet and what is the daily average balance that -- I mean was understood. That was my question, its answered, I mean, but yes Rs. 10,000 Cr – Rs. 11,000 Cr difference on a kind of Rs. 80,000 Cr, it was pretty big. The second question on that loss on derecognition.

Sachinn Joshi:

Avinash, can you repeat the second question? We couldn't really hear.

Avinash Singh:

Yes. So, I mean, you have kind of a different parts of your credit cost. So, if I go with your -- yes, Ind AS filing, there is a Rs. 155 Cr reported loss on derecognition of loan at amortized cost. Generally, I would understand this would be typically when you are selling loans and getting SRs and all kind of a thing for that. But in this quarter, in the same filing, if I see, there is just 1 loan that you have sold, that also a standard loan for 200 -- I mean that loan was Rs. 200 Cr. So, where this Rs. 155 Cr line item is coming from? What have you derecognized from loan book and investment look.

Sachinn Joshi:

So, there are different components, which form part of the overall credit cost. One is the mark-to-market, which is there on account of fair value changes. Second part is the ECL provisions that we make. And third part is the foreclosure losses that we have, which get incurred when we actually do the repossession and foreclosure and whatever proceeds come that also come as part of the credit cost and the ultimate gap between the actual value on the books and what we recover comes in as a hit to the P&L. So, these are broadly the 3 components that come.

Moderator:

The next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe:

Just two questions. One is if you could share some colours on the top state exposures in microfinance. And the second one is slightly more qualitative. Some of the banks and NBFCs are raising some concerns in the personal loan business with higher delinquencies, increasing customer leverage. I know we are going live on the new model. We are starting to do business with DSAs now, but are we kind of tightening the stream? And what is it that we are watching for?

Sudipta Roy:

So, Nischint, I will take your first question. Our top states are Tamil Nadu, Karnataka, Bihar. These are mainly our 3 top states. And the fact is that our asset quality in all these states remain stable. And what we have been trying to do over the last couple of quarters is sort of bring down the overdependence on a couple of states and try to expand into the new sort of geographies or territories, which are lesser penetrated and have less MFI penetration and correspondingly less leverage. So that is what's been our strategy. So that's the first question.

The second question is on personal loans. Yes, on personal loans, as I said, we are focused on prime and near prime personal loans, especially on the salaried segment. And our personal loans, if you see our -- the new acquisition engine, the new credit engine. The new credit engine is not live on personal loans yet. It will become live on personal loans towards the latter part of the year. But the fact is that overall, on a credit policy perspective, we have tightened most of the guardrails. As you can see, our Personal Loans year-on-year sort of growth is only 1% odd. And so that is why on Personal Loans, we have been very, very cautious and judicious and the underwriting standards, especially for Personal Loans have been increased. Though previously, we used to underwrite Personal Loans completely on a sort of a machine algorithm basis. Now we have introduced manual underwriting on Personal Loans above particular ticket sizes, where post the machine BRE goes through and human being also looks at most of the loans and looks at most of the parameters. So, we're very guarded in scaling up this particular portfolio. And whatever we do -- we can assure you that it will be on a risk-calibrated basis and primarily to the salaried segment.

Nischint Chawathe:

Perfect. Just one small question, what would be the average yield on loans in home loans?

Sudipta Roy:

Average yield -- would be about -- we do not give out the exact numbers, they will be in the range of about -- close to about 9%.

Nischint Chawathe:

This is practically the prime segment, prime or near prime.

Sudipta Roy:

Yes. Yes.

Nischint Chawathe:

Perfect. Those are my questions and all the best.

Moderator:

The next question is from the line of Chintan Shah from ICICI Securities.

Chintan Shah:

Congratulations sir, on strong set of numbers. Sir, my question is on the Two-Wheeler business. So, on the Two-wheeler, the sector seems to be growing – the two-wheeler sales seem to be growing around in single digits, whereas our growth is around more than 25% odd. So how do we expect the growth to sustain in the Two-Wheeler segment?

That is first and similarly, sir, on the microfinance given that there have been some news on a collection efficiency and probably heatwave. And so because of that, are we also planning to somewhat slow down our growth in the microfinance? Or so basically, what would be the growth vectors that will help us to grow more than 25%?

Sudipta Roy:

Yes. So, I'll take the Two-Wheeler question first. Obviously, on two-wheelers, India sells anywhere between 1.2 million to 1.4 million two-wheelers per month. And I think our focus on two-wheeler has been to make sure that we are present in the prime and the near prime segments and primarily sort of wean ourselves away from the sort of the below prime segments. Though new-to-credit continue to be a significant proportion of our through-the-door acquisitions as well, wherein our new credit engine Cyclops will come useful.

As I said in my call, our focus is on what I call deepening the surface area or increasing the surface area of distribution, we are currently at about 75% penetration of the overall dealer universe. We want to take it to about 85% of the dealer universe, and our teams are focused on sort of onboarding more dealers.

We are also working on building our loyalty program for our Two-Wheeler dealers, which obviously has constructs built-in wherein we get a preferential share from the dealer, in whichever dealers that we agree to onboard on us. Plus, last but not the least, the new credit engine, which we have deployed on a beta test pilot basis. Also, you have to understand that a large proportion of the two-wheeler approvals are done in the dealerships, sometimes the customer does not end up taking the loan from us. So, which we call approved but not disbursed. One of our focus areas is to reduce the approved but not disbursed -- and then by giving the right ticket size to the right customer, and we are hopeful that our new credit engine will also help us do that.

While calibrating for risk, it will also throw up the right ticket size, which is sort of due to that particular customer rather than through the door sort of a simple business rule and engine type of approach. We have invested in our Two-Wheeler distribution teams as well. Our Two-Wheeler distribution team has grown. We have set up a separate EV channel. We have separate -- put up a separate prime bikes channel as well as the superbike channel as well.

You have to keep in mind that Two-Wheeler AUM expansion is not only a function of the number of two-wheelers that we finance, but also the average price of the two-wheelers that we finance. And if you see from the slide that we have put up in the investor deck, our average ticket size of the two-wheelers financed by us has been going up. So, if you look at that particular two-wheeler slide, the average ticket size has been going up, which obviously shows the focus that we have on the prime segment as well as the average financing amount of more higher-end two-wheelers have increased.

Yes. So, it's in slide 18, where you can see that from June'23, where we had about Rs. 85,000 average ticket size, we are currently at Rs. 98,000 average ticket size. So, it is on two-pronged approach, first and foremost thing increasing distribution, increasing quality, and making sure that we are -- reduce our rejections or reduce our sort of leakages by approved but not disbursed and last but not least, pushing the ticket sizes of the vehicles.

On the back of a good monsoon that we are seeing this year, I think overall, the two-wheeler demand might increase as we move towards the festive period. We remain hopeful. And if it really does and the two-wheeler demand spurts on the back of a good monsoon, I think we will be sort of sufficiently well capacitized by that time to take a large amount of that share as and when that happens. So that's the first question. What was the second question?

Sachinn Joshi:

On Micro Loans

Sudipta Roy:

Yes. So, growth expectation. Micro Loans, we are very clear that we will do risk-calibrated growth. Our vintage markets are Bihar, Tamil Nadu, Karnataka, and Kerala. These markets, obviously, we are focusing on, as I said, new villages as well as zero disbursement villages is where we are sort of granularly tracking.

We are also moving into new markets. We are moving into Telangana, we are moving into Maharashtra, Western UP and probably later on in a couple of other new geographies as well. So, our growth will come in the Micro

Loans segment from expansion into hitherto uncovered villages in our existing territories as well as completely virgin villages in the new territories.

So, we are probably -- during the course of the year, we will set up anywhere between 250 to 300 new Micro Loans branches. And as you know, each and every Micro Loans branch in about 6 to 8 months of operations, starts generating about Rs. 1 Cr worth of top line. So, we are also confident that a mix of focus on new geographies as well as setting up new branches as well as deepening up our distribution channels will help us sustain the growth in our Micro Loans business.

As regards to the asset quality in our Micro Loans business, as I stated earlier in the previous question, it remains stable. Our collections discipline and our discipline of -- on due date collections remain strong. And as of now, I can say that our asset quality sort of metrics that we see right now on ground are quite satisfactory.

Moderator:

The next question is from the line of Kunal Shah from Citi.

Kunal Shah:

Congratulations. So, a couple of questions. Firstly, in terms of just taking forward the growth question, if we look at YoY against, like, say, Rs. 6,000 Cr net addition to Micro Loans, there has been Rs. 6,000 Cr addition to Home Loan plus LAP as well. So, when we look at the mix between the secured and unsecured on incremental basis, do we see now the secured proportion would be relatively on the higher side, given the various marketing campaigns also which are being done on the Home Loan, LAP and all?

Sudipta Roy:

So, Kunal, the answer to that is that we obviously are trying to calibrate our secured to unsecured sort of separation of our AUMs. And yes, the focus has been on Home Loans and Loan Against Property in the last maybe 4 or 5 months, thanks to our 'Complete Home Loan' launch and which is doing reasonably well in the market.

But however, you would notice also that our Personal Loans business has been recalibrated, and we have been sort of making sure that the guardrails in this business are made far, far more stronger and focus on salaried customers as well. So, I do believe that overall, for the next couple of quarters in terms of growth prospects, our Rural Business Finance business will continue to grow. We will see risk calibrated growth in our Personal Loans business as well as we will see growth in our secured businesses, which is factored on the back of good monsoons, Home Loan and Loan Against Property, the market demand remains robust as well as in terms of Two-Wheelers.

We have started also Rural Micro LAP, we have started, we have piloted Micro LAP, and we have -- the pilot has been reasonably successful in Tamil Nadu. We have close to 30 branches in Tamil Nadu, and we're scaling up in Maharashtra, Gujarat, Karnataka, Telangana, the Micro LAP business also we are scaling up. It will be very hard for me to put a sort of complete sort of a percentage separation between secured and unsecured. But what I'd like to believe is that given that we expect reasonable -- to continue reasonable business growth momentum of all our lines of business, both secured and unsecured. I think the current separation that we have between secured and unsecured, I think that trajectory will continue for the next couple of quarters.

Kunal Shah:

Okay. Okay. And secondly, with respect to yields. So, if we look at it in terms of what would be the difference between the incremental and the book yields, okay, because we would still be having a larger part on the fixed rate side? So given that margins have expanded almost like 17-odd bps, just want to get some sense of that.

Sudipta Roy:

It will be about 10% to 11%

Sachinn Joshi:

Yes. About 11.5%.

Sudipta Roy:

11.5% to 12%. Wholesale would be about 11.5% to 12%. And overall, retail would be, I would say, ballpark which is average basically is 15% -- 16%-odd.

Kunal Shah:

About 16%?

Sudipta Roy:

Yes.

Kunal Shah:

So, this would be book yield?

Sudipta Roy:

Yes, that's right. Yes.

Kunal Shah:

And incremental on retail side.

Sachinn Joshi:

See, directionally, Kunal, we don't see -- the earlier question actually will answer depending on how the secured, unsecured piece stands out. Usually, what we try to do is that we first have a secured, especially the Home Loan/LAP that is part of our strategy, that the Home Loan piece is one which is first grown on the balance sheet and around it then we are able to do the unsecured piece, grow the of unsecured piece, which is the Rural Business Loans, Rural Micro LAP. SME and Personal Loans are the two, again, growth businesses for us.

So, these will not grow unless we have a strong secured asset base on the balance sheet. So, it's going to be a mix. Directionally, we feel that the yields will continue to be in this range at least for next 3 to 4 quarters. We really don't see that we will continuously keep increasing either the Home Loan book or aggressively growing the Rural Business Loans. So, it will be calibrated, and we will ensure that the mix is maintained at a level where overall NIM plus fee do not get impacted.

Sudipta Roy:

Yes. So, in addition to what Sachinn said, I would like to also add is that, for example, in our Home Loan business, our home decor finance product has actually seen a good amount of traction in the 2 months that we have operated. And it is at about an 11% yield, introductory 11% yield. And that when it adds to the entire sort of Home Loan portfolio, it obviously brings the overall yield of the home-allied AUMs a couple of basis points higher.

So -- we obviously will be working on strategies to improve our yields. We are looking at sort of seeing whether we can take our Two-Wheeler yields a notch up, especially in some markets. So, it's a continuous process. But as Sachinn said, it will be more or less on this ballpark area.

Moderator:

The next question is from the line of Abhishek Murarka from HSBC.

Abhishek Murarka:

Congratulations for the quarter. So, a couple of questions. One on MFI again. So recently, MFIN has come out with some refreshed guardrails, in terms of number of lenders per customer, Rs. 2 lakhs is the maximum MFI to a customer. Does this create any kind of slowdown for you in MFI? And you see a portfolio which is breaching these currently, and you have to run it down something of that sort? Or incremental customers are breaching this, so that creates a constraint. So, are you seeing any kind of slowdown because of this? The second question is sort of on Two-Wheelers. So, when you say, what is the yield on prime, near prime versus the book yield on two wheelers. So yes, these 2 questions.

Sudipta Roy:

Yes. So, the first question, I would like to point out that, to start off, the new MFIN guardrails, which have been rolled out does not impact us in any way. Because anyway, we are following those guardrails. In fact, some of our guardrails are more stringent than that.

For example, we do not disburse to customers on JLG loans who are at any point not at zero DPD. We onboard if only the customer is a zero DPD JLG customer. That's the first thing. We continued the association norms even after it was regulatorily not required. We said a maximum of 3 lenders, which are allowed, including LTF. So, we continued that norm. We continued the JLG indebtedness norms, where we -- in any way, our guardrail was about Rs. 2 lakhs. So, plus also what we do is that we have 800 strong risk control unit team as well as a separate verification, which we call the branch process team.

So whenever -- though if our field level guy also goes and sources a customer and whether the customer gets a preliminary approval, there's a backup process also to continuously check, whether the customer -- independent backup process to check whether what the customer has said it is correct or not.

So, before a customer goes through for disbursement, multiple levels of checks. So, in fact, we were party to the MFIN discussions as well when these guardrails were set up. And we were happy to note that these guardrails though it will be overall beneficial for the industry and sort of protect the industry from any accidents going forward, for us, it will be business as usual. It doesn't impact any -- these sort of guardrails are already embedded in our business for the last many, many years. So, it's not of a concern for us as well.

With regards to your Two-Wheeler question, our prime IRRs are around 15% range and our non-prime IRRs about 19% range. Our overall mix comes in at about 17.5%. But I would also like to state the fact that our prime portfolio, of which we have considerable right now at about 52%, have decent yields because the collection costs are much lower, the loss rates -- the projected loss rates are much, much lower. So, in terms of RoA basis, the prime portfolio, Two-Wheeler portfolio RoAs are sort of traversing on a satisfactory trajectory.

Moderator:

Our next question is from the line of Hardik Shah from Goldman Sachs.

Hardik Shah:

I have a couple of questions. First is on the MFI. Am I audible, sir?

Sudipta Roy:

Yes, you're audible.

Hardik Shah:

Yes. First is on the MFI, you mentioned that your top states are Tamil Nadu, Karnataka, and Bihar. And Bureau data is also suggesting that there is very high retail overlap for the MFI customers in Tamil Nadu and Karnataka particularly. So, can you share some of the data points for your customers if you have done any study of what is the retail overlap for the MFI borrowers?

Sudipta Roy:

So, we have done a significant amount of sort of bureau wash on retail overlap. And I can say that in majority of our markets, close to 60% of our customers have negligible retail overlap. So, the fact is that the retail leverage, and this is something that which even we have been doing for a long time, even when there was sort of -- it was not even in the limelight, so we have been doing it. So, does that answer that question.

Hardik Shah:

So, this is retail overlap you're talking about with your own portfolio as well as from the industry. So, are you suggesting that

Sudipta Roy:

Yes, absolutely

Hardik Shah:

Okay. And second, on the center meeting discipline, are you tracking kind of attendance? How does that look like, given that we've had feedback from other competitors that the discipline is not the way it used to be before pre-COVID? Anything to share there, sir?

Sudipta Roy:

Our discipline levels are completely sort of rigorously adhered to. People report for collections. The first 12 days of the month are dedicated to collections and the next is for sourcing mostly. People report at work at 6:30 a.m. in the morning. It is rigorously and digitally tracked. So, I do not know about -- I cannot comment about industry, etc. And our on due date collection remains at 96%.

Hardik Shah:

Any number around center attendance, you want to share, sir?

Sudipta Roy:

Discipline is persistent.

Hardik Shah:

Any number around center attendance that you would like to share, sir, if you're tracking that?

Sudipta Roy:

We track center attendance numbers, but I wouldn't like to go specifically into center attendance numbers on the call. I would like to state that discipline. And discipline is a mix of the control that the business managers have on their business, as well as the overall HR discipline of the organization. Our people are extremely disciplined. And whenever -- and frankly, I haven't received any sort of adverse feedback on any lack of discipline or lack of attendance -- lack of attendance in any part of our ecosystem. In fact, what we did was that we hiked the salaries of our Rural Business Finance employees. And we did a salary correction in the month of February. And post that, our attrition levels have significantly dipped in this line of business, which shows that our employees are not only well taken care of, but they are motivated, and they are performing well to their expectations.

Hardik Shah:

Understood. Sir, and last question on the cost-to-income ratio and the provisioning that you have. How are you viewing cost-to-income ratio going forward from the current levels? And how comfortable are you with the provisioning that you're having right now?

Sudipta Roy:

Cost-to-income ratio for this quarter is about 40% odd and if you look at sequentially, we have gone down from about Rs. 980 Cr to Rs. 966 Cr. And that too on a quarter where we have invested significantly in marketing and above the line marketing. And obviously, our focus is on making sure that our cost trajectory remains stable while we do not shy away from investing in the right areas that we need to invest in. We have told that overall, as a block, our credit cost plus opex will be at about 7%. And we remain committed to the trajectory, though for this quarter, I think that number is close to 6.8%. So -- we are running several cost control initiatives right now in the organization, on the technology side, on the collection side, on the overall sort of employee cost side, the travel side, etc, and we are trying to see wherever we can get efficiencies, we are trying to get efficiencies on the cost side. So those efforts will continue.

However, I would like to reiterate that our investments in technology as well as our investments in brand building will continue for the next couple of quarters. In terms of provision coverage ratio, I think we are comfortable. We are at about 75% right now. And we think that is quite comfortable for the next -- the go-forward trajectory.

Moderator:

Ladies and gentlemen, we would take that as the last question for today. I would now like to hand the conference over to Mr. Sudipta Roy for closing comments.

Sudipta Roy:

Thank you, everyone, for joining our call. We remain optimistic about the future. As part of the 5-pillar execution, granular execution strategy towards our Lakshya 2026 goals are truly in motion right now. The entire organization is focused on making sure that we deliver on all the 5 pillars of execution to the best extent possible.

We are hopeful that the environmental trends that we have been seeing, especially with regards to rainfall or monsoons continue its positive trajectory that we have seen so far because it is very important for our lines of business. We also remain mindful about the credit cost scenario of the entire industry and how that is projecting, and we continue to monitor them and also continue to continuously invest in making sure that our credit guardrails and our credit administration guardrails become stronger with every passing quarter.

We are very focused on compliance and control. And as I have said in my -- during my opening comments that we have created a separate deeper compliance organization, including central compliance, business compliance as well as regional compliance. We are now putting compliance people within every businesses as well as who will work on the business compliance part that whether the business is compliant with every rule that is applicable to that business as well as regional compliance, wherein we are putting people in -- regional compliance people in the 4 regions. So that on ground granular compliance monitoring also happens.

We are very hopeful that on the back of a good monsoon and on the back of a good festive quarter, FY25, the continued growth trajectory will remain. And we, as an organization, remain committed to our investors as well as our promoters to deliver the return that is expected of us. Thank you for attending the call, and we'll be happy to meet many of you on a one-on-one basis as we go through the rest of the quarters of this year.

Moderator:

Thank you. On behalf of L&T Finance Ltd, that concludes this conference. Thank you all for joining us. You may now disconnect your lines.

*Since the transcript has been derived from a voice recording tool, necessary corrections have been made to remove anomalies as well as manifest but inconsequential factual discrepancies, repetitions in Q&A which would have unintentionally crept in, if any