

Portal:	Moneycontrol	Edition: NA	Online
Published Date	18 th Oct 2024		
Headline: L&T Finance to remain cautious about rural business amid stress in microcredit sector: CEO Sudipta Roy			

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<https://www.moneycontrol.com/news/business/lt-finance-to-remain-cautious-about-rural-business-amid-stress-in-microcredit-sector-ceo-sudipta-roy-12848895.html>

L&T Finance will remain cautious about rural business due to the ongoing stress in the microcredit sector, Sudipta Roy, Managing Director (MD) and Chief Executive Officer (CEO), L&T Finance, told *Moneycontrol* during an exclusive interview.

“We have been cautious because there have been sectoral headwinds. There are several NBFCs [non-banking financial companies]-MFIs [micro-finance institutions], which have declared lower collections efficiencies,” Roy said.

In the second quarter (July-September), rural business finance disbursements have reduced by 5 per cent year-on-year (YoY) and 6 per cent quarter-on-quarter. Rural business finance disbursements during the quarter stood at Rs 5,435 crore, as compared to Rs 5,773 crore in the quarter-ago period and Rs 5,740 crore last year.

There have been movement from rural business, which has led to some increase in the gross stage 3 loans, he added.

Gross stage 3 assets of the company has increased to Rs 2,523 crore in the second quarter — from Rs 2,116 crore during the year-ago period and Rs 2,355 crore during the corresponding quarter last year. Stage-3 refers to the period, where loans are overdue for more than 90 days.

Net interest margin (NIM) has taken a hit in the second quarter of financial year (FY) 2025. What went wrong?

As the balance sheet starts growing, NIMs will start seeing some compression. In the second quarter, we have been within the band between 10.75 and 11.25 per cent as far as NIMs plus fee (1.92 per cent) is concerned.

On an aggregate basis, we are at 10.86 per cent. The lending environment is facing macro challenges. We have increased our prime share of two-wheeler disbursement, which has also led to a couple of basis points (bps) dilution in our NIMs plus fees. The stabilisation process has started because we have reached 96 per cent retailisation, which refers to the process of making investment funds more accessible to individual investors.

What range we can expect over the next one year?

It may range between 10.5 and 11 per cent.

Why have micro-finance disbursements slowed down?

We have been cautious because there have been sectoral headwinds. There are several NBFC-MFIs, which have declared lower collections efficiencies. Even though our collections efficiencies have remained stable, we did not want to press the pedal at this stage due to the prevailing uncertainty.

We have chosen to do safe business with non-leveraged customers. As a result, we have brought down our repeat penetration from 59 to around 53 per cent.

We have also calibrated our growth in this business to ensure that the credit outcome remains stable over the remaining two quarters of FY25.

Will this strategy continue?

Monsoon has been very good. Initial indicators of the Kharif crop is also good. We are optimistic that the situation will start improving soon. On the tractor front, the uptake has been reasonably good during early October. The situation is likely to improve this quarter and that may help us recalibrate our growth.

Why have the stage 3 assets gone up?

There has been some movement on the rural business side, which has led to a rise in the gross stage 3 loans.

How has the cost of borrowing improved by 5 bps in the second quarter?

We had a very good quarter on the treasury front, where we could borrow money from banks through the priority sector route. This money comes in at a cheaper rate, as compared to the normal borrowing route. That component has increased from 17 per cent to 25 per cent on a YoY basis.

We have also started to look more into the retail space. This pivot has created a head room to borrow short-term loans as well. We have increased the commercial paper from about 6 per cent to 8 per cent YoY.

All these tactical decisions have led to a reduction in the overall weighted average cost for the second quarter.

How do you see lending business grow on the back of festive season's demand?

For the first 10 days of October, we didn't see very good growth. It was more or less at similar levels during September. But over the last five-six days, we have seen some uptick. We are hoping that as we near Diwali, this volume will grow exponentially.

Typically, business grows between 20 and 25 per cent on a month-on-month basis from September to November.

Do you plan to raise external commercial borrowings (ECBs) this fiscal?

There are a few transactions in pipeline and we would continue to pursue them during this financial year.

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— MANISH M. SUVARNA | OCTOBER 24, 2024 / 17:18 IST

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Sudipta Roy

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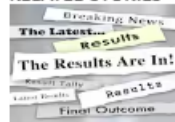
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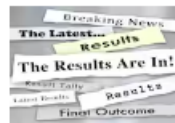
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Edited excerpts from the interview:

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