L&T Finance

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In an interview, Roy said that the RBI's actions are not aimed exclusively at NBFCs but were instead meant for the financial services industry at large. He added that the central bank has been picking up themes that apply to banks, NBFCs as well as fintechs.

At a time when the Reserve Bank of India (RBI) is keeping a close eye on banks and non-banking financial companies (NBFCs), Sudipta Roy, managing director and chief executive officer of L&T Finance, who has switched sides from bank to NBFC, does not find any difference in working for the latter because the scrutiny for both is on similar lines.

"Working in a bank and working in an NBFC is no difference because of the regulatory scrutiny, all upper-layer NBFCs are scrutinised as well as banks. The upper-layer NBFCs also conduct themselves like banks so, for me, there is absolutely no difference between a bank and an NBFC," Roy told Moneycontrol in an exclusive interview.

Roy, who was associated with lenders such as ICICI Bank, Deutsche Bank and Citibank, where he handled portfolios such as consumer finance, cards and retail loans, lending, and payments technology systems, among others, joined L&T Finance over a year ago when the company was trying to turn its business to 100 percent retail NBFC.

Roy was appointed MD and CEO of L&T Finance on January 23 but complete charge was handed over in April after the superannuation of predecessor Dinanath Dubhashi.
In the July-September quarter of the current financial year, the company achieved around 96 percent retailisation and reduced its wholesale book by around 56 percent on-year to Rs 4,040 crore.

During the interview, Roy said that the company would not do big-ticket loans and will remain focused on retail loans. "Wholesale is more or less a closed business. Big wholesale loans, big-ticket loans, lumpy loans—we will not do it," Roy said.

Edited excerpts:

You have almost completed one year as CEO. How has the transition been from bank to NBFC?

I didn't feel any difference. You do the same products on the asset side. We do not manage people's cash. In a way, NBFCs are like half a bank, on the asset side.
Working in a bank and working in an NBFC is no different because of the regulatory scrutiny, all upper-layer NBFCs are scrutinised as well as banks. The upper-layer NBFCs also conduct themselves like banks so, for me, there is absolutely no difference between a bank and an NBFC.

How do you want to position L&T Finance in the next three years?
We are trying to position ourselves as a digital first, digital native lender. If you are a good customer with a great credit standing, L&T Finance will give you the best loan. We want to position ourselves as a digital native lender which actually underwrites the customer holistically and gives the customer the best possible offers, much better than anyone else.
On the servicing side, we would probably work much better than many others because of service stack digitisation as well. Overall, we want to position ourselves as a standout digitally native NBFC, what we have originally defined as fintech at scale.
Fully native digital means digital in all our processes and systems. All our processes, whether its interacting with customers, collecting from customers, servicing our customers—there should not be a single piece of paper flowing around and it should be a completely digitised NBFC, and the term probably is digital native.

Do you have any plans for reorienting the business and look at wholesale loans again?
For us, wholesale is more or less a closed business. We have decided that it will be a fully diversified retail NBFC. We will do business loans and we will do supply chain finance, which are the closest to wholesale. Big wholesale loans, big-ticket loans, lumpy loans—we will not do it.

As NBFCs are regulated mostly like banks now, what challenges do you face?
There is a no difference. We are all on the ECL (expected credit loss) model (a framework under the IFRS accounting standard).
The ECL model puts far more stress on management as well as on the teams that run businesses to be far sharper. NBFCs in India, especially the upper-layer NBFCs are probably conducting themselves at a level equal to banks.

Do you think there is a need for more tightening of norms from RBI for NBFCs?
The RBI's actions are not NBFC-specific, the actions are financial services industry-specific. The RBI has picking up themes and those themes apply to banks, NBFCs as well as fintechs, all participants in the financial ecosystem.
The RBI is generally trying to sort of align the financial services industry to certain core principles of theirs and whoever is involved in those businesses, whether it be a bank or NBFC, have to get aligned. There is no stringent regulations required for NBFCs. Whatever is there is very much enough for supervision of NBFCs and I don't think any separate stringency is required for NBFCs separately.

After three large partnerships, what's the way forward for the consumer lending business?
We termed these partners as mega partners. Rather than working with too many partners, we would like to work with a few large partners. Amazon, (the partnership) which we launched now, is a major one. CRED and PhonePe are also big ones. We want to work with mega partners because most they have a lot of data on customers who transact on their platform and they are able to profile these customers better. When the customer comes to us, it is as qualified customers.
If I want to lend to salaried customers or want to build a prime or a prime-plus book, these partners are able to slice and dice their portfolios better and give us those customers with whom we would like

to underwrite. It gives me a much safer portfolio and allows for a larger speed of scale-up in a safe manner.
The prime portion of the personal loans portfolio is operating well. We haven't seen signs of stress in the prime and the prime-plus portfolio of personal loans and we want to expand in this segment. I believe 15 - 20 percent year-on-year growth in this business is achievable and it can be done in a safe and a sound manner.

Would you extend your partnership to other loans also?
Partnerships are multi-loan products. With PhonePe, we launched with mortgages and a few more products are getting added soon. With PhonePe, we are live on two-wheelers loans also. On Amazon, we will go live on personal loans soon. We are also focused on doing mortgages, LAP (loans against property), SME (small and medium enterprise) loans and two-wheeler loans.

What could be the ratio between your partners and your own platform?
In about two and half years from now, 40 percent of our business will come from our partner channels and 60 percent will be originated by L&T Finance.

How do you see net interest margins (NIMs) playing out?
Margins have improved from when we started defocusing wholesale. From 9.5 percent in Q1FY24 it has gone up to almost 10.86 percent in the last quarter (Q2Fy25). For two quarters (Q1FY25 and Q2FY25), it had hit 11 percent-plus because we have MFI (microfinance) loans, which is a high-yield business. We are balancing between secured and unsecured (loans) and have guided the markets that our NIMs plus fees should be 10.5 - 11 percent. We are already at 10.86 percent.
We are hopeful that the downward rate of the RBI rate cycle will probably start from January or February of next year and we are hopeful that as the edge on the cost of funds increases, we will be able to sustain our guidance on margins.

MFI loans account for over 5 percent of your loan book. What is the guidance on this front?
We had 5.4 percent of the total loan book as of September-end. In October the share fell to 5 percent, which is LTF plus 4. LTF plus 4 means borrowers having loans with associates other than L&T Finance. Starting January this year, we had put in the guardrail of LTF plus 2, that means if anyone has more than two loans other than our loan, we will not lend to them, whether it's a fresh or a repeat loan. Because of this, most of the leverage portfolio has reduced. By end-November, we expect this proportion to fall further. In six months, we expect that this particular portion of the book will wash away.

Probably by the end of this financial year, we will be close to maybe 2 percent or so because from January of 2024, we are not disbursing to anyone who is LTF plus 2. We have tempered down our MFI disbursement because it is tough to disburse when the industry is seeing stress.
If you see on a quarter-on-quarter basis, the growth rate has reduced by about 7 percent. When your mainline business witnesses a bit of a slowdown, it can impact revenues, which is possible in Q3. By Q4, I expect MFI disbursements to go up slightly, but still muted. Full normalcy is expected only by Q1FY26.

Do you think that an interest rate cap is required for MFIs to bring down the stress?
The industry is working on bringing down the rates. I do not think the interest rate cap is required.

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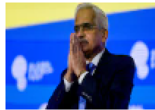
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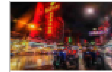
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