L&T Finance

October 31, 2023

National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, G Block,
Bandra - Kurla Complex, Bandra (East),
Mumbai - 400 051.

BSE Limited
Corporate Relations Department,
1st Floor, New Trading Ring,
P. J. Towers, Dalal Street,
Mumbai - 400 001.

Symbol: L&TFH

Security Code No.: 533519

Kind Attn: Head – Listing Department / Dept of Corporate Communications

Sub: Transcript of investor(s) / analyst(s) meet – Q2FY2023-24 financial performance and strategy update

Dear Sir / Madam,

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the investor(s) / analyst(s) meet for Q2FY2023-24 financial performance and strategy update held on October 23, 2023.

The above information is also available on the website of the Company i.e., www.ltfs.com/investors.

We request you to take the aforesaid on records.

Thanking you,

Yours faithfully,

For **L&T Finance Holdings Limited**

APURVA NEERAJ RATHOD
Digitally signed by APURVA NEERAJ RATHOD
Date: 2023.10.31 14:19:39 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance Holdings Ltd.

Q2 FY24 Earnings Call Transcript

October 23, 2023

Management Personnel:

Mr. Dinanath Dubhashi (Managing Director & Chief Executive Officer)

Mr. Sudipta Roy (Chief Operating Officer)

Mr. Sachinn Joshi (Group Chief Financial Officer)

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

Moderator:

Ladies and gentlemen, good day, and welcome to the L&T Finance Holdings Limited Q2FY24 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today Mr. Dinanath Dubhashi, Managing Director & CEO 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Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the call. Only publicly-available documents will be referred to for discussions during interaction 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 While all efforts would be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call.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 Q2 results presentation sent out to all of you earlier.

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

Dinanath Dubhashi:

Thank you. A very good morning to all of you. Welcome to the call. I can start the call definitely by stating without any hesitation that we are very, very enthused about the Q2FY24 results. In fact, I read in one of the reports written by one of you, that the results show not only quantity, but also quality and that really reflects what I wanted to say. We are happy, of course, that we have registered the highest ever retail disbursements, maintained excellent margins and further reduced credit cost, thus achieving a 46% PAT growth, registering a PAT of Rs. 595 crores. We are, of course, happy that we continue to achieve and exceed the Lakshya 2026 targets well ahead of time, but most importantly, we are happy qualitatively that all the steps that we have planned to make sure that our results are consistent without any negative surprises, all those steps are falling in place in an excellent manner. Thanks to the excellent execution engine we have put in place.

With this, let us now look at the performance of second quarter, Q2FY24. Over the last few quarters, we have achieved several milestones in our quest to make LTF a 'Top-class digitally-enabled retail finance company'. The strong differentiators we are creating have helped us achieve our Lakshya 2026 goals well ahead of time. Our plan of making the company a leading digitally-enabled retail finance company is well on course and has been tremendously strengthened by the addition of Sudipta to the team.

Sudipta has now spent almost 4 months with the company and as I had mentioned in the last call, the company is strongly growing on his strengths to reimagine and redraw various customer journeys as well as internal processes. We aim to make our journeys more and more seamless, widen our customer funnel further, efficiently farm our strong customer database and most importantly, further strengthen underwriting processes by bringing new-age insights into the underwriting journeys. While business cycles and seasonality are a reality of life, we believe that the above initiatives will help us make our growth relatively insulated from these, thus making it more consistent while at the same time, continuously improving our portfolio quality and further reducing credit cost.

Achievements against the Lakshya goals

So let me now just quickly capture the achievements against the Lakshya goals with majorly accelerated timelines. Our strategic plan, Lakshya 2026 rests on 4 key milestones, let us look at the performance against each one of them:

1. The first milestone was taking Retailisation percentage to more than 80% by 2026. I had already indicated to you that we will, in fact, be exceeding 90% Retailisation by end FY24 and most importantly, we are confident

of doing the same without any negative surprise to the P&L. In keeping with that promise, we have already achieved a 88% Retailisation in Q2FY24 and quite confident of going beyond 90% in Q3FY24 itself.

2. The second milestone was about retail growth of more than 25%. Against this, we grew 33% YoY in this quarter and this, let me remind you, follows up on the 34% YoY growth in Q1 and 35% YoY growth in the previous year i.e. FY23. So, the growth has been pretty consistent.
3. We had also said that our GS3 and NS3, Retail GS3 and NS3 will be below 3% and 1%. As you would see, our Retail GS3 and NS3 today stand at 3.05% and 0.67%, respectively, and even on a consolidated basis, this is at 3.27% and 0.82%.
4. Last but not the least, we had put a retail ROA target of 2.8% to 3%, and we had reached 2.95% in Q4 and 3.08% in Q1. This quarter, it has grown to 3.32% and I believe that with the various steps being taken, this can only improve from here.

Performance highlights for the Quarter

Retail Performance:

If we look at the highlights of this quarter:

- Our profit, Retail profit after tax actually is Rs. 606 crores, up 86% from last year.
- Retail 'NIMs+Fees' are at almost an all-time high of more than 12%.
- We have done our highest ever quarterly retail disbursements of about Rs. 13,500 crores, which is up 32%. Now let me again point out that Q2 traditionally is the weakest quarter, and we have done the highest quarterly disbursements, while making sure that '0 DPD' collections, portfolio quality, everything remains same. This is happening largely due to the various steps we are taking, especially on farming the database and also some movement towards more prime customers.
- Book size growth - retail book is now ~Rs. 69,400 crores, which is up 33% and we have already talked about asset quality and ROA.
- Retail ROE now has reached 16.31%.

Consolidated Performance:

If we talk about consolidated performance:

- The consolidated PAT now is once again at very high -- very healthy level of Rs. 595 crores, which is up 46%.
- Our capital adequacy remains strong at 25%.
- Our credit cost has come down further by 10 basis points on a YoY basis, which is a good path to tread on.
- And continued with the accelerated reduction in the wholesale book, a steep reduction of about Rs. 29,000 crores, 76%, has been achieved, and now the wholesale book stands at Rs. 9,318 crores at the end of Q2FY24. And as I'm guiding, we should cross 90% by Q3 itself and hopefully be quite close to 95% by the end of this year.

As the balance sheet becomes more and more retail and the wholesale book becomes less and less relevant, the overall ROA will start converging to the retail ROA. I would also like to point out that our overall ROA has now crossed 2.4% and now this acceleration towards the conversion to retail ROA is expected to be faster as we keep reducing the wholesale book.

Let me now briefly talk about the retail ROA tree and the factors contributing to the same and what kind of direction it can take:

Strong 'NIMs+Fees': So number one, the strong 'NIMs+Fees', as you will see that the retail 'NIMs+Fees' have trended quite well and have reached an all-time high level of more than 12%. While we do expect borrowing costs to inch up slightly in the second half of the year, our treasury has been managing the costs quite efficiently through judiciously locking in interest rates for medium to long term and also making excellent use of our rural portfolio which qualifies for PSL borrowing as well as PTCs. All this is being done while keeping CP proportion (commercial paper proportion) low, at just about 6%, which provides good room for increase in this percentage, if required, and hence, moderation in borrowing cost. We will do this on need basis. What helps, of course, is the overall duration of the book coming down continuously because of Retailisation. Also, one factor, which will help cost of funds is the impending merger, which is now in its last phase and will also provide tremendous synergies in treasury, ALM and liquidity management. Simply, we have to keep liquidity. We have to manage ALM of 3 companies. Instead of that, it will be one company. Obviously, it will lead to lots of synergies. All of this, coupled with the movement of the portfolio to retail and rural has definitely helped weighted average yields. While the 'NIMs+Fees' may moderate slightly from current levels, we do not expect a major drop in this in the future because of all these reasons that we have highlighted

Expenses: On the expenses side, I have indicated over the last couple of calls that the opex line may remain sticky at least in the near future. And the reason for that is we will continue to invest heavily in physical infrastructure and teams to aid our growth and also heavily invest in cutting-edge technology. You would have also observed higher marketing and brand visibility of our brand over the last couple of quarters, and this investment will also continue. This increase in cost will, of course, be partly offset by better productivity and efficiencies. But on the whole, this line may remain a little sticky in the short term. We are convinced that this investment will bear excellent fruits in the future.

Credit cost: Credit cost, this is a line where we have shown steady and continuous improvement, and we clearly and strongly expect that this trend will continue in the future quarter-on-quarter. The improvement will come with work on 3 vectors:

1. Further strengthen underwriting by augmenting bureau -- what we normally do is single-line underwriting, which is bureau information, asset cost and income based underwriting. We will be augmenting this with many new-age parameters, which Sudipta will talk about more.
2. Second, excellent track record on '0 DPD' collections aided by tremendous analytics input.
3. And last but not the least, a strong collection team on the ground which aids rollback of whatever rolls through and recovery of the accounts which flow in the subsequent buckets. Even after very good 0 bucket collections, there are accounts which obviously will flow and this strong collection team ensures that it is recovered and credit cost is kept minimum.

With all this, we clearly expect the retail ROA, which has now steadily increased to 3.32% to further inch up towards 3.5% mark over the next few quarters. With this excellent trajectory of profitability in place, it is now important to understand exactly how we are planning to maintain this excellent rate of growth while continuously reducing credit cost and hence, improving ROAs quarter-on-quarter.

I now hand over to Sudipta for:

1. Taking you through the business highlights for Q2FY24,
2. Talking about the business strengths which we have built and which have helped us achieve these results,
3. Most importantly, highlighting the 5 pillars we are putting in place to ensure an excellent trajectory of growth, credit cost and hence profitability in the future.

Over to Sudipta.

Sudipta Roy:
Thank you, DD. And good morning to everyone in the call. Before moving to the detailed business updates for Q2FY24, allow me to talk to you about our expectations of Q3FY24.

There are multiple things happening in India and globally, and we are going through a sort of uncertain period in terms of global geostrategies. Talking about the global scenario we know that the inflation has been staying well above the targets in major economies, geopolitical headwinds from ongoing wars, elevated crude oil prices, the strong dollar and rising U.S. yields added to the financial markets' volatility. However, when you talk specifically about India, the economy has showed improved resilience in Q2 FY24, even as the consumption recovery showed a K-shaped pattern owing to the state and central government's capex push.

During 2023, India received lowest rains in 5 years and the El Nino weather pattern made August the driest month in more than a century. Uneven rainfall further raises the risk to the Kharif yield plus the depleted water reserves in several states could challenge timely sowing of the rabi crops. This does not augur well for rural incomes and food inflation in H2FY24. Inflation, too, is likely to firm up in H2FY24 due to a subpar monsoon and the surge in global energy prices. Accordingly, some slowdown may be observed in rural demand.
H2 of FY24 has been a mixed period for the economy. Bond yields have firmed up already and in some sections of the urban consumer lending, there are some signs of leverage. It will be important to approach the near future with optimism, but at the same time, with very strong risk guardrails. On one hand, we have seen some very strong festive demand already in Q3 and at Larsen and Toubro Finance, we are geared up for the festive season with targeted campaigns and consumer offers.

With that aside, let me quickly deep dive into the key highlights for the quarter that has gone by:

<u>Retail Businesses</u>:

<u>Disbursements</u>: Disbursements in Q2FY24 stood at Rs. 13,499 crores, up 32% YoY. This has resulted in the retail book growing 33% YoY, and our overall retail mix has grown to 88%, up from 58% in Q2FY23. In terms of our business lines:

- **Rural Business Finance**

If I take the Rural Business Finance business, some of the highlights I can put now on the table is that this business is of 14+ years of vintage and it has done its highest-ever quarterly disbursements at Rs. 5,740 crores, up from Rs. 4,511 crores in the previous quarter, which was back then the highest-ever quarterly disbursement.

This is a result of better income mapping, persistent focus on customer retention and streamlining business throughput. We started income mapping about 18 months back, and as you all know and now with this income mapping, we have a very good idea of the various categories of customers and can design our products accordingly. This quarter, we also achieved the important milestone of crossing the book size of Rs. 21,000 crores in this business. In Q2FY24, Rural Business Finance also witnessed the highest ever quarterly disbursement to LTF exclusive customer base, which we call the Pragati customers at about Rs. 1,202 crores. More importantly, our repeat disbursements are close to 70% of total, 31% of the disbursements are to exclusive 'LTF customers'. This trend shows that this business has not remained as cyclical as before.

- **Farmer Finance**

In the Farmer Finance business, we have disbursed loans upwards of Rs. 1,500 crores, Rs. 1,534 crores to be exact, in Q2FY24. And this has led to a disbursement growth of 18% YoY and a book growth of 13% YoY. What is interesting to note that our top-up product, Kisan Suvidha has seen an increase in penetration from 24% in the last quarter to 30% in Q2, and we have actually driven the penetration of this product with single-minded focus. With consistent focus on repeat borrower book growth, the disbursement from this segment stood at Rs. 385 crores in Q2FY24, resulting in a 26% YoY. We have been enhancing digital collections too, and they now contribute 45% in the overall collections, up by 8% YoY. We intend to leverage the festive season with higher dealer activation by increasing dealer penetration.

- **Urban Finance**

As you are aware, a large proportion of our business is also now in urban finance, and we are focusing on growing all the business lines in urban finance strongly. This segment, which comprises of Two-wheelers, Personal Loans, Home Loans, Loan Against Property business saw a 17% YoY jump in overall disbursements resulting to a 31% YoY increase in book size.

  - The 2-wheeler business registered a disbursement of Rs. 1,817 crores in the quarter, up from Rs. 1,726 crores in the previous quarter, and the book crossed Rs. 9,500 crores, up 18% YoY. This obviously in a quarter that is normally a difficult quarter for most of the consumer lending businesses. With a higher emphasis on the prime segment and an overall enhancement on customer base quality, we have been able to grow our prime customers with asset value -- defined as with asset value greater than 1.5 lakhs, 52% YoY from Q2FY23 to Q2FY24. Now what happens in the prime product is that the customer gets a better LTV because they are prime customers. We get much, much lower bounce rates, maybe as low as $1/3^{rd}$ the bounce as compared to a normal customer from other lower value ICE sort of vehicles. And hence, as a corollary much lower collections cost and credit costs.

    We have also entered into agreements with preferred electric vehicle players like Ola and Ather. This, of course, is within our plan for getting prepared for the future, but clearly, also within our plan for pushing the portfolio towards more prime segments. This also furthers our goal of funding sustainably as a company.

We are leveraging a lot on analytics in driving this business, and our analytics-driven dealer relationships analysis has always been our strength. And this has led to a higher counter share of 54% of our total disbursement from the top dealers.

This business is going to become one of our main customer acquisition engines in the coming future, and thus holds a lot of potential and hence, we have a lot of focus from our business as well.

- In the Personal Loans business, we have forayed into this category with the objective of sort of leveraging our existing Two-wheeler, seasoned Two-wheeler customer base as a primary cross-sell proposition. This business witnessed disbursements worth of Rs. 1,308 crores, and the book size crossed Rs. 6,000 crores, an increase of 63% YoY.

  We have also launched an income assessment-based journey program to provide better offers to our customers based on their salary and banking credit, increasing the average ticket size to about Rs. 1.75 lakhs. We have been also working towards reimagining our customer journeys in the Personal Loans business by adding multiple layers like utilizing video KYC for customer onboarding, establishing manual underwriting centers and strategic locations to augment customer eligibility and augmenting traditional bureau-based models with advanced bureau plus models of -- bureau plus models of the -- what we call the additional signal-based underwriting, which I'll talk a little bit later, and also including geographic expansion.

  I think it is important to discuss this segment in a little more detail. As I said earlier, some segments of this market are certainly showing signs of overheating. Basis our interaction with credit bureaus, we would like to point out that the stress largely exists in the low-ticket personal loans segment, which is less than Rs. 50,000 sort of ticket size, and bureaus like CIBIL estimate at a total of Rs. 25,000 crores outstanding in this particular ticket size segment compared to overall personal loans book size of about Rs. 10.5 lakh crores. In high ticket sizes, normally, more caution is exercised while underwriting and the loss rates are significantly lower than those in less than Rs. 50,000 segment. As far as our portfolio is concerned, we have practically no exposure in the less than Rs. 50,000 ticket size segment, and we have consciously stayed away from the BNPL segment -- lending in the BNPL segment.

- Moving on to Housing. It achieved the highest-ever quarterly disbursement of Rs. 1,734 crores, up 55% YoY and the book size crossed Rs. 15,000 crores mark, an increase of 30% YoY. In line with the strategy of balancing customer mix for optimum returns, share of salaried and self-employed segments in the total disbursement stood at 58% and 42%, respectively, in Q2FY24 and we are operating mostly in the prime segment in case of disbursing Home Loans.

- **SME Finance**

Coming on to SME Finance. We'll be completing 2 years of SME Finance in Q3. As you know, the product was launched in Q3FY22. Our Q2FY24 disbursements stood at Rs. 872 crores, a 45% increase QoQ, and it has become quite large as a business, and we have done about -- if you recall, in the same quarter last year, we had done about Rs. 201 crores.

As we go ahead, here also, we have launched new products. We initially started only with the unsecured business term loan. We have now launched overdraft and hybrid overdraft products, which are seeing extremely good traction as we go ahead. New locations, which are launched around the month of May 2023, contributed to about 15% disbursements in September 2023. We have opened the call centre channel for targeting prospect data in August 2023. We are also launching the hybrid OD product in September-23. The book now stands at about Rs. 2,413 crores crossing the Rs. 2,000 crores milestone, up from Rs. 321 crores in Q2FY23. We have added about more than -- about 3,500 customers in the quarter with cumulative customer base crossing about 12,000. In Q3FY24, we will focus on adding new funnels to complement existing DSA channels, and we will be launching our partnership-based journeys as well. We also aim to launch our top-up offerings in this quarter.

Collections: As you know, for most retail asset businesses collections is a very key input to the entire operations of the business. And on the collection side, we have observed best-in-class collections in all our retail products wherein our entire collections team have put in their best efforts to enhance collections through the strategic use of analytics. This concerted approach has significantly strengthened our overall collections performance, and we have provided detailed product-wise collection efficiencies in our investor presentation as well as for our retail portfolio. As well as, in our retail portfolio, we have also shown the stage wise book in our investor presentation as we had promised for the last 3 quarters in a row.

Wholesale Business:

I would like now to come to a brief commentary on our Wholesale business. On the Wholesale business, we now are much closer to our Lakshya 2026 goal of making LTF a completely retail finance company and we showed excellent reduction in our Wholesale book year-on-year. We are now very confident of crossing the 90% Retailisation mark by end of FY24. This quarter, the book size reduced to less than Rs. 10,000 crores from Rs. 14,292 crores in Q1FY24 to Rs. 9,318 crores in the period of just one quarter. That's a 76% YoY reduction and a 35% reduction QoQ sequentially. The contribution from the wholesale team has immensely helped in taking the retailisation percentage up towards 88%, thus making L&T Finance a truly retail finance company. The fact that the NS3 on the book is just Rs. 175 crores and NS2 is just about Rs. 500 crores give us complete confidence that there will be no negative surprises coming to the P&L from this segment in the future.

Business Strengths

Now let me also talk you through the various business strengths that we have steadily built in the last few years.

Deep pan India franchise

We have diligently cultivated a deep pan-India franchise over the years, and this has become a cornerstone of our operations and our performance quarter-on-quarter bears testimony to the strength of this franchise. An optimum mix of strong physical presence and preferred channel partners, coupled with leveraging our database which is about 2.2 crores customers, about 1.46 crores in the rural areas and about 76 lakhs urban and growing with every passing month has helped us building a superior retail franchise. We have disbursed to about 6.5 lakhs new customers in Q2FY24, and our active customer franchise now stands at about 90 lakhs. Share of cross-sell as well as upsell in the total disbursement has been the highlight of this quarter, which stands at about 38% as against 34% in the last quarter. The gradual improvement underscores the enduring strength of the franchise that our organization holds and we are proud to witness its continued success as a testament to our ongoing commitment and focus.

We, of course, envisage these numbers to gradually increase as we concentrate our efforts on increasing the share of cross-sell and repeat loans like the Pragati loans in the Rural Business Finance business, the Vishwas loans, the Kisan Suvidha in our Farm business, the Two-wheeler Loyalty to primarily for cross-sell of Personal Loans, the Consumer Loans top-up or the Personal Loans top-up as we mentioned earlier, Housing Loans top-ups, etc. We have built a strong cross-sell and upsell engine with great use of digital analytics, which shows the strengths that we are building to address the additional needs of our customers of the future.

This is definitely beneficial for the customer and the whole idea is quarter-on-quarter, year-on-year, we reduce the effect - impact of seasonality both on our business as well as on our collection. And we certainly believe that we are equipped to handle the seasonality. However, this layer of cross-sell and upsell engine that we are building to our existing customers, reduce the effect of the volatility of seasonality if there, maybe. And you will see on a quarter-on-quarter disbursements that we have shown over for the last 9 quarters also, you see that the dependence on new disbursements is clearly coming down and our share of cross-sell disbursements is growing quarter-on-quarter.

We are proud to state that our quarter 2 disbursements are the highest that we have ever posted in a quarter, which actually shows that this is working quite well. This is just the beginning, and we'll be on our endeavour to increase this 38% of cross-sell/upsell volumes slowly to higher levels as we go forward. And obviously, the added advantage is that the acquisition cost is lower for all the cross-sell, upsell sort of disbursements. And of course, credit cost is also lower because these are tried and tested credit seasoned customers, and we have been seeing these customers over a couple of months on books. The strengthening of this franchise not only makes sense on the disbursement growth side, but also on the collections and the asset quality sides as well. Asset quality, we hope we should continuously improve going forward, leading to the reduction in credit cost through continuous enhancements in underwriting, analytics-based strong focus on 0 DPD collections and strong ground collection teams. It makes the company resilient to external factors, and that is the one kind of company that we want to build.

Fintech@Scale

Obviously, you have known and analysed as part of our Lakshya 2026 goals that we want to build L&T Finance into what we call Fintech@Scale. And this has been our way of offering a one-stop solution for our customers. Over the course of the last multiple calls, we have talked about transforming L&T Finance into a company that relies on fintech and implements fintech at scale. This obviously requires not only a comprehensive strategy, but continuously putting data analytics to excellent use. We are dedicated to ensuring that no good customer is lost, and we are resolute in our mission to accompany them through every phase of their engagement with our products and services in a digital manner. This means that we not only prioritize the acquisition of customers, but also ensure the long-term satisfaction, loyalty and sustained value realization as they navigate their financial interactions with us through our digital platform.

And specifically, we'll talk about our PLANET app right now.

PLANET App: Our PLANET app, which is our D2C app was launched in March 2022 has witnessed tremendous success and already crossed 6 million downloads since it launched, which even we had not imagined it. The App actually did one million downloads in November 2022, 3 million in April 2023, 4 million in July 2023 and 6 million in October 2023. So, you can see that there is a lot of customer pull towards using this app and which is sort of supplemented by the strong download trajectory that we see from our customers

But more than these numbers, what matters more towards is the engagement of our customers with the services that the application has to offer. From offering service features like downloading statement of accounts and interest certificates, the app has developed into having superior engagement features like providing mandi prices for our farmers, insurance, credit scores, features like the D2C journey for top-ups, etc. As we progress, a lot of more efficiencies in personal finance journeys are going to be unleashed by this app.

Let me give a few number updates on the PLANET app:

- As on date, the app has done collections about Rs. 590 crores, sourced loans of about more than Rs. 4,200 crores and catered to about 9.4 million service requests.
- The app also boasts of catering to about 8 lakh rural customers.
- More than 26 lakh customers have checked their credit scores. More than 31 lakh customers have downloaded their repayment schedules and more than 40 lakh statement of accounts have been downloaded from the app.

It has genuinely inverted the service pyramid. So, the branches just 2.5 years back, contributed to about 51% of our service requests and digital only contributed to about 14% of our service requests. This is now completely reversed to branches contributing 8% of our service requests and digital contributing to 81% of our service requests. So, on the other hand, this augurs, tremendously well for our operating cost, but much more important for quality of customer service and, hopefully, much higher customer retention and satisfaction.

As highlighted by DD in the last call, rural remains one area where there is a major sort of upside as well as improvement area for us. At this point in time, about 13% of total downloads i.e., from 60 lakhs -- around 8 lakhs come from the rural areas. And this speed is likely to catch up now with big efforts on marketing this app in rural, which has specifically been taken up as a target by the business teams as well. This will clearly change the way our customers in the rural areas engage with us and even in the manner of repayment of our loans.

Developing Digital Finance Delivery

On the last call, DD had spoken to you about developing digital finance delivery as a customer value proposition. As mentioned earlier, the objective is to touch every part of the customer ecosystem with superior digital infrastructure. We have built able 100 paperless journeys -- 100% paperless journeys in Rural Business Finance, in Farmer Finance and in Two wheeler finance as well as in Consumer Loans.

As far as collections is concerned, our strength definitely lies in our feet-on-street network owing to the nature of the businesses that we are in, and we are continuously boosting our digital collection capabilities. In the urban space, 93% of our urban collections happen completely digitally, which is on a steady state now. Though while for the rural, it might look like a small number, but about 14% of our sort of loan -- rural collection is happening digitally, both in Micro Loans and Farmer Finance, they're catching up on our digital collections as well. Just about 2 years back, this number was low single digit, and I believe personally that this is going to accelerate as we go ahead -- And we, as an organization, are focusing on pushing the envelope in making sure that the digital collections also grow in the rural areas.

ESG@LTF

In the last leg, I would like to talk about ESG before moving on to the strategy of the 5 key vectors for future sustainable growth. The company's environmental, social and governance journey started in 2018-19, making it one of the first NBFCs to embrace sustainability. Our journey towards Lakshya, our primary objective, while it has to drive growth, but it was also while embracing the principles of environment, social and governance factors.

As far as our commitment to ESG is concerned, I'd like to share with you that we continued our vow towards minimizing our ecological footprint. The ESG policy adopted by LTFH has been a guiding framework to incorporate ESG considerations into operations and business and mitigate material impacts and risks. We have won many notable awards for our ESG contribution during the quarter, including the Champions of ESG Award at the Global Fintech Fest 2023 held in Mumbai.

Five Vectors for Growth

Now what I'd like to talk is what we define as our 5 vectors for growth, and it is in consonance with our Lakshya 2026 strategy. With the results of Q2FY24, we have now reached where we aim to be when we formulated the Lakshya 2026 goals. The obvious question is what follows next. There's no doubt that we will be striving for LTF to reach newer and higher heights, but how will we do that? Here, I would like to address the 5 vectors of growth, which we'll be emphasizing on our future journey to make sure that we maintain excellent growth while keeping our portfolio quality robust.

- **Enhancing Customer Acquisition** - Obviously, one of the first vectors is enhancing customer acquisition. This is going to be our primary aim going forward. We want to enhance the velocity and quantity of our customer acquisition. This will entail broadening the customer funnel and velocity while increasing throughput along with harvesting our existing customers and increasing cross-sell while keeping risk under control. In addition to this, we'll be launching contiguous product offerings. For this, we are formulating a detailed plan, and you will see a lot of developments in this area in the next upcoming quarters.
- **Sharpening Credit Underwriting** - It is very important that while we increase customer acquisition, it is also important to -- sort of improve the credit underwriting engine. And that will be our next vector of focus - to further sharpen our credit underwriting. We'll be moving from a single axis underwriting to multiple axis underwriting and movement from traditional means of underwriting like the bureau-based underwriting to new methods of sort of 360 underwriting using account aggregator pulls, market-available behavioural signals fully within the digital lending and privacy laws and obtained with customer consent. For this, we are developing a dynamic credit engine based on alternate data signals and ingesting these credit signals to make our underwriting model more robust, robust in addition to our traditional underwriting. These additions will provide us with a far better credit underwriting of the customer than we are currently able to.
- **Implementing Futuristic Digital Architecture** - Obviously, increasing customer acquisition funnels and increasing the sort of the efficacy of our credit underwriting engine also makes it imperative on us to sort of build a futuristic digital architecture. And this is the third vector. The third vector will be optimizing and reimagining the digital journeys to eliminate choke points and provide a superlative experience to our customers. The digital machine that we will build will not only help us externally, i.e., in terms of ensuring a seamless experience for our customers, but also internally, i.e., all / most of our processes, databases, operations, etc., are done and stored through a central digital warehouse. In order to achieve this, we have now a dedicated team for in-house engineering, so as to enhance our time to market.
- **Heightened Brand Visibility** - The fourth pillar that we will need to build up to the next level is heightened brand visibility. We will be ensuring continuous brand presence across channels to build salience and recall for the brand that we are brand L&T Finance. We have a host of other activities planned for the coming months, where we will be conducting multiple brand and product awareness campaigns, both in the rural and urban areas with focused targeting and ensuring optimum channel mix. The idea is to make the brand synonymous to retail lending and be the first choice of lender for our rural as well as our urban customers.
- **Capability Building** - And while we try to sort of build on these 4 vectors, obviously, one of the critical elements in this is making sure that we have the right quality of people. And so, the fifth and the last vector entails focused enhancement and optimization of talent pool in what we call capability building. We will be building teams focused on artificial intelligence and machine learning and also building additional capabilities in credit and risk management. The highly talented and specialized resource pool will ensure that we have the best human talent within the company who can bring on board their individual strengths and help us in delivering our Lakshya 2026 goals and carry the organization even further than that.

We have already started our work in these areas, and I'm extremely confident that these vectors will act as strong anchors so as to enable us to become the Retail Fintech@scale that we aspire it to be, while equipping us with meeting any challenges that may come our way in the future.

I would like to conclude by saying thank you to all of you for your support and by reiterating the confidence that the company is well on its line for a very accelerated achievement of the Lakshya 2026 goals. LTF is on its journey to become a pure-play retail company, and it is at an important juncture now with the company now having become 88% retail-oriented. While the goals have been achieved in terms of percentages well in advance, we keep -- we aim to keep this excellent growth going forward while maintaining asset quality, further improving productivity, cost efficiencies and continuously improving our digital and analytics footprint as we go ahead. We are confident that this will lead to a secular improvement in our profitability ratios as we go ahead. What gives us confidence to do that is all our strengths like the deep sort of employee network and the distribution network we have, our digital capabilities and the proven management bandwidth, along with our ability to utilize and work on the customer database that we have already built or that we are going to build through our customer acquisition engines in the future.

With all these thoughts, I extend my good wishes to all of you. I wish all of you a very happy Dussehra, and I thank you all for a patient hearing.

Moderator:

Thank you very much. We will now begin with the Q&A session. The first question is from the line of Mahrukh Adajania from Nuvama.

Mahrukh Adajania:

Congratulations. So basically, I had a couple of questions, but I'll start with Sudipta's comments on unsecured loans. First of all, thank you for making those comments upfront because there's a lot of confusion. But in your experience, because you have a very rich experience in unsecured retail and in risk, in your experience, do you think that the risk in the small ticket segment can easily spill over to the large ticket segment? Or they are -- they have to be viewed as two completely different segments? And does that then impact other unsecured segments like MFI as well? So that's my first question, and then I have earnings-related questions.

Sudipta Roy:

Yes. So, to answer your question on the rural segment first, they're not exactly consumption loans, they're rural business finance loans. So, in that way, they are of a different category. And the collections discipline and the lending disciplines on that business are markedly different from the urban personal loans. And frankly, I do not believe that the risk from the small ticket personal loans that we are seeing, which are mostly fintech in nature are actually the same quality of loans that are done by the large established financial services players because in addition to the sort of the digital underwriting and acquisition models, there's a deep experience that the large organizations have, which actually help us to sort of sift out the risky customers from those that are non-risky.

So, to answer your question, I really do not see any contagion risk from the small ticket personal loans to the larger sort of personal loans category or the prime category. And that -- and I have looked at the risk numbers, that the risk numbers on that particular segment remains quite stable across the financial services players, the larger financial services players.

Mahrukh Adajania:

Okay. That's very, very helpful. The other two questions are that, of course, the presentation is very detailed, if you could just highlight the value of SR, security receipts?

Dinanath Dubhashi:

I will take that. So, Mahrukh, last time, we had said that SRs were about Rs. 6,500 crores. With the overall value of the loans, which we have sold was about -- original POS was about Rs. 13,000 crores. So that was the kind of safety we had. Okay? So same thing, SR stood at -- net asset value of SRs will be around Rs. 8,000 crores with total loans, the POS will be upwards of Rs. 16,000 crores. So, two things that I would like to highlight here:

- Number one, on entire basis, even if you take SRs plus loans, etc., we have shown a reduction of close to Rs. 9,000 crores, between Rs. 8,500 crores to Rs. 9,000 crores from the beginning of the year to now. So, we can even see the overall.
- Second, because of these deep discounts on SRs over the original value, you would see that over the last several quarters, the reduction in the value of SR, revaluation, has been very limited. I always say that this Rs. 25 crores- Rs. 30 crores per quarter, Rs. 150 crores to Rs. 200 crores per year is what I always say will be the cost coming both from SRs as well as some reversal of interest that we take on the Infra loans according to IndAS. So, no negative surprises waiting there.

- Third, for the first time, we have actually told on the call that the -- by the way, Net Stage 3 (NS3) on the book, you know that is just about Rs. 175 crores. The Net Stage 2 (NS2), as Sudipta said, is just about Rs. 500 crores on the book also.

So, if we put all this together, that gives us confidence that there are absolutely no negative surprises coming from either the book or from SRs. What you need to take in your model is about Rs. 150 crores to Rs. 200 crores negative on the P&L from wholesale book and model accordingly.

Moderator:

The next question is from the line of Viral Shah from IIFL Securities.

Viral Shah:

Congrats on good set of numbers. Actually, I had a few questions. So probably maybe I'll come back into the queue later on, if they are too much -- too many. So let me start with, first of all, the other income and the fee income growth that was there in this quarter. So right now, you are now at almost 12.5% NIMs+Fees. What's, first of all, the sustainable level going ahead? And was there any one-off in the other income in this quarter? Let me start by first this.

Dinanath Dubhashi:

So one-off, I can't call it one-off, but there was fees that we had to receive from our partners, insurance partners, which was due over the last 2-3 quarters, but came this quarter was just about Rs. 25 crores to Rs. 30 crores. So, I don't think that is one-off. These things keep happening. Quarterly fees don't come every quarter, but that's about it. There were no major one-offs other than that coming. But since you asked this question, I would like to point out that another Rs. 25 - 30 crores in addition to business-as-usual came from there -- why I'm not ready to call it one-off is because further quarters also some past dues will keep coming, okay? As far as the trend is concerned. NIMs+Fees Retail, I have been always been guiding around -- I was initially guiding 11.5%, I changed my guidance to 11.7%. I was also surprised at 12.16%. We have done very, very well this time. As I said in my comments, it comes from two things:

- Number one is cost of funds. That is an item which may go up by maybe 20-odd basis points in H2. There is no question about that. We have managed our treasury very well based on locking certain long-term, medium-term loans. I mean I can tell you that when treasury was looking at locking them, I was asking them so many questions. And today, we are laughing all the way to the bank, having locked some real long-term rates over the last one year. That is one.
- Second, our especially Farm portfolio, to some extent, Two wheeler and the Micro Loans portfolio enables our treasury to borrow PSL and even more importantly, PTC, which really keeps the cost of funds in control. So even if we see major hardening -- not major, but 25 to 30 basis points hardening, further hardening in bond yields, by the way bond yields, as you know, are already hardened. Even if you say further hardening, we will keep our cost of funds in -- it will go up, but it will be in control.
- Secondly, as I pointed out, CP percentage, if you see, it's just about 6%. Now this 6% to 9% was good when our wholesale was 30%-40%. Now with wholesale down to 12%, there is scope to increase it, at this point of time, it doesn't make much sense since the spread between CP and long term is not that much. But that is temporary. We can always -- when the CP rates come down, we can always use them to increase it even slightly to 9%-10%, it will work well. So, this is as far as cost of funds is concerned.

As far as yields are concerned, let me clarify that it has not come out of a major increase in yields, etc. Competition doesn't allow that. It has come out of a little bit shift in portfolio, more towards retail, and especially within retail also towards rural. So that's clear.

As far as what is sustainable, I would be perhaps foolish to say that this 12.2%, we will sustain and increase from here. But I don't see it falling much more than 12%. It will be in high -- very high 11% to 12% over the next couple of quarters. That's, I think, as accurate as I can go. We have done lots of modelling. It's a conservative number that I'm giving.

Viral Shah:

Fair enough. And thank you for this detailed answer. The second is in terms of the credit cost. So over here, as you mentioned, while NIMs are benefiting from the changing book mix, not just from wholesale to retail, but even within retail, the mix is changing towards more of MFI, Two wheeler and Personal Loans. And if I look at the collection efficiencies across your Tractor, Two wheeler or Personal Loans, they are now trending 30 to 100 basis points down on a YoY basis. So, I believe there won't be any seasonality into this. Now in this scenario, what gives you the confidence that your credit costs can further go down on the BAU basis? I'm not talking about whatever extra provisions you may be holding, but on a sustainable basis.

Dinanath Dubhashi:

100 basis points on a YoY basis, which product, I don't know -- #1 clarification. You called our Rural Business Finance, MFI. I would like to clarify it is no longer that. In fact, we give the breakup and a very small percentage of what we do is now Microfinance. Microfinance is defined as less than Rs. 3 lakhs income, and that's less than 10% of our customers.

So, 90% of our customers are above Rs. 3 lakhs income. Close to 15% of our customers -- rural customers are above Rs. 10 lakhs income and which is giving us the confidence that even the increased percentage of Rural Business Finance is quite safe. As you would see, we have maintained the collection efficiencies. I hope you are not making an issue in the colors. Collection efficiency of Rural Business Finance is absolutely steady at 99.8%.

Viral Shah:

So not in Rural Business Finance…

Dinanath Dubhashi:

Yes, yes. I'm coming, I'm coming, one by one, okay? As far as Farmer Finance is concerned, yes, there is a small reduction to 91.6% compared to 91.9%. We have not seen any worrying factor there. This may be just last couple of months, certain small issues coming up. We expect these things to improve quite a bit in the third quarter already. Okay?

One place where there is a reduction about -- 100 basis point reduction in -- is you can see in Personal Loans. Now two things have happened here. And the last time, last year, this Personal Loan book was just about Rs. 2,000 crores, and now it is Rs. 6,000 crores. So, it is, the percentage, to some extent, is just the book being large, more mature, etc., one.

Secondly, as you would also see, we have reduced our rate of acquisition of new personal loans quite a bit. In fact, this is down quarter-on-quarter. For us to change and put in place many journeys, especially underwriting journeys. And once this area is complete, from Q4 onwards, we will start growing. In fact, Q3, we will be, again, on this slow trajectory. So, a little bit of denominator effect. Sudipta, would you like to add to that?

Sudipta Roy:

Yes. So, what I would like to add is that though there might be a slight quarterly fluctuation in terms of the overall risk numbers, but on an overall basis, the sort of the new improved sort of risk framework that we are putting in place will smoothen out all these sorts of kinks in the future, and we expect to deliver a stable risk regime going quarter-on-quarter going forward.

So, I wouldn't read too much into this sort of as DD said, the base effect was very small. So, as we are speaking, we are working on -- and this is not only in the personal loans business, this is in all our business lines. We are strengthening the framework so that even as acquisitions go up, the risk trajectory remains stable.

Dinanath Dubhashi:

Last but not the least, Two wheeler. Yes, Two wheeler, we are at 97.9% as we speak now. And very, very important couple of facts, which wherein Sudipta's speech is, one, a big move is happening towards prime customers towards prime Two wheelers, the prime Two wheeler volume had some number of...

Sudipta Roy:

Yes. So, if you see the prime Two wheeler volume, it has gone up to 52% as of now in Q2FY24. So, it is a part of a concerted strategy where we have observed that Two wheelers above a particular ticket threshold size deliver significantly lower risk numbers then. So, the organization as a whole is pushing towards that. EVs sort of exhibit 1/3rd risk numbers of ICE engine vehicles. So as an organization, we are making a shift towards broadening those funnels and bringing more such customers in, right? Obviously, you will not see the impact of such actions immediately. But over the next couple of quarters, you will see those strategies come up in terms of risk numbers and collection efficiencies.

Dinanath Dubhashi:

Does that answer your question?

Viral Shah:

Yes, it does. And again, thank you for the detailed answer.

Dinanath Dubhashi:

It is important because there are so many factors which come in finally to that credit cost, right? And I would also say that importantly, you would have observed that this credit cost number, the lower credit cost number is without utilizing even 1 rupee from macro prudential provision. So that remains...

Viral Shah:

So, does this still mean that even from this level, your credit cost can further come down – generally?

Dinanath Dubhashi:

Most definitely.

Viral Shah:

Okay. Fair enough. I had another question, a follow-up on what Sudipta had mentioned in terms of strategy of cross-selling and top-ups.

Dinanath Dubhashi:

Go ahead.

Viral Shah:

Yes. So over there, that is what the strategy going ahead you are referring to. But when I see in terms of the personal loan disbursements, nearly 40% of those are being sourced from the e-aggregator platforms. So, can you give us more colour on what are those kind of loans, the character of those borrowers, average ticket size, how do they differ? And how does this stand with our strategy of doing more of cross-sell to existing customers?

Dinanath Dubhashi:

Sure. So, I will give the second part of the question to Sudipta. But first, see, when it moved from last year to this year, we started e-aggregator last year. So, we started this product, as I was always saying, only as a loyalty product. So, it was 100% loyalty, naturally. And now we are moving to more sources. So those percentages will obviously go up. The overall characteristics remain absolutely the same. We don't do new-to-credit customers. We don't do less than Rs. 50,000 loans. That remains absolutely same whether it is -- obviously, loyalty cannot be new-to-credit because they are our customers. But as we acquire from outside, we don't do a single new-to-credit customer as far as personal loan is concerned. As far as exactly how e-aggregator, what type, what are the credit engines and how we are improving them? I will ask Sudipta to elaborate. In fact, Sudipta, why don't you take a little bit more time to say how we're improving the credit....

Sudipta Roy:

So, one of the things what we want to do -- and thanks for the question, is that our average personal loans ticket size now is about Rs. 1.7 lakhs, right? Now we are focusing as an organization on -- now on making sure that a large amount of the throughput of the customers that we get from the digital channels is primarily salaried. So that is our first focus.

The second focus is that we do not want, as DD said, we do not want any customer which -- who does not have a footprint on the bureau or which someone else has not seen in terms of their engagement. Now obviously, that would entail working with some e-commerce players and some e-aggregators and making sure that their credit engines have seen that customer for some time, build a transaction score or risk behaviour for that customer, sort of validated it through us, maybe through our data room exercise and then sort of given our offer to the customers.

So, the focus, as we sort of build the acquisition engine for this business, it is very important that we are operating on two axes:

- the first axis is to give the right-size loan to the right customers.
- And the second thing is while we are doing that, make sure that the credit administration process is further sort of strengthened by not only looking at the bureau data, make sure that we are able to -- whenever the customers give us access to -- give us an account aggregator pulls, sometimes we are able to sort of analyse the bank statements with a far more degree of clarity.

And last but not the least, get the behavioural signals from whichever e-commerce player or whichever e-aggregator that we are pulling it from. Then making sure that as I told in my initial comments, that moving from a single axis underwriting to a multi-axis underwriting. This model will obviously take some time to mature. And so, we will grow this gradually. There is no hurry. And as DD said, you have noticed that we have sort of plateaued the acceleration rate of our personal loans business, while we put this new tool in place and sort of slowly gain experience in this new tool. So, you will see a gradual increase in disbursement in this business while trying to keep credit cost flat.

Dinanath Dubhashi:

So, two things I will add:

- Number one is, Sudipta has done it for his living for all these years. And we will obviously draw from that.
- Second, there was a -- last time, there were questions about yields based on -- as we move to prime. So, what we will do through this is it will enable us to do more risk-based pricing. So, this kind of underwriting, multi-axis underwriting not only helps taking better credit decisions, but it also helps risk-based pricing. Now that we hope to steer the portfolio more and more towards prime with that, which will reduce absolute yields perhaps, but we'll definitely make sure that risk-adjusted ROAs are superior. So basically, delta yield will be less than the delta collection cost plus delta credit cost. So that's clearly in the model as we move ahead....

Viral Shah:

Thank you so much. I think you even answered the other question that I had in terms of what changes are you making. So that's it from my side.

Moderator:

We take the next question from the line of Shweta from Elara.

Shweta Daptardar:

Congratulations for the quarter as well as the comprehensive presentation. So, I remember you always used to mention about market share across products. So, if you can just do that this quarter as well? And also, while we say that the growth on the retail side will converge for the whole overall loan growth ahead. So how do you see the momentum now in say FY25-FY26? That's from my side.

Dinanath Dubhashi:

Okay. The second one, I don't know how to answer. I can only say that we expect those kind of growth rates to continue. Whether we will be at 33%-34%, I don't know, but we have stated always that we will keep the growth rate above 25%. And all this, we put in place for that. And at the same time, as I say, seasonality, cyclicality is a fact of life. So, I'm not saying anything quarter-on-quarter. Generally, for the 4-5 years going ahead, various factors, like broadening customer funnel, using our database, which is increasing now every quarter, more efficiently, movement towards prime, we believe and then last but not the least, which we didn't talk about because it is too premature is launching new contiguous products.

What do we mean by contiguous products is products, which our existing customer segments use. We will not go suddenly looking for new customer segments, but our existing customer segments as they need more and more products, we will look at launching them as we go ahead. So that growth doesn't seem to be -- or especially the CAGR over the next 4 to 5 years. I mean we are not clairvoyant to say -- okay, how the fourth quarter will be, how the first quarter next year will be. But generally, CAGR is likely to remain healthy.

Most important part is to do this while making sure that productivity goes up and credit cost comes down. And the entire concentration is going to be on that. So that ROAs keep going up, keep moving up to by -- at least by FY26, we should reach at least 3.5%, if not earlier. We probably will reach it much earlier, but at least that's the goal. So, we have said 2.8% to 3%. We should be comfortably at 3.5% levels over the next few quarters.

On this topic, I will also say that even the overall ROAs -- I mean, ROA, by mistake I think I said ROE, ROA at around 3.5% levels. And overall ROAs, as Wholesale comes down, over the same period, we can see going to the 3% mark and crossing it, which is giving us good confidence that even the overall ROEs can touch mid-teens as we finish the Lakshya period. So that is the overall profitability.

You asked a very specific question on market shares, okay. We have been giving our Farm market share. So, our Farm market share in terms of number of vehicles is around 15%. Our Two wheeler market share is around close to 10% if we say number of vehicles. But slowly, we will start also calculating it in value as we move more to prime vehicles and we are close to 6% in Rural Business Finance. Of course, there counting market share is, I think, a little bit infructuous because the market is microfinance. They all report it as less than Rs. 3 lakhs, whereas our share of less than Rs. 3 lakhs is very small. But if you take it as reported, then it is about 6%. I don't think we are anywhere near counting our market share for Home Loans or Consumer Loans (Personal Loans). We are too small as well as SME also at this point of time. Does that answer your question?

Moderator:

The next question is from the line of Saurabh Kumar from JPMorgan.

Saurabh Kumar:

Sir, just I had a follow-up on the SR book. So, what will be the time frame for this run down? And secondly, beyond the Rs. 150 crores that you spoke about in terms of credit provisions, is there any fees also you pay for this SR? So, I just want to know the negative carry on the P&L...

Dinanath Dubhashi:

But the negative carry, we give the entire wholesale book profitability. So that entire negative carry is in the wholesale book profitability. It is there in the presentation.

Saurabh Kumar:

Okay. No. But on the SR you said Rs. 150 crores, because the book will keep running down, but you will keep paying this -- you'll keep having a markdowns and the fees, right?

Dinanath Dubhashi:

I don't know that kind of micro details, I don't remember over the next 4-5 years. As far as when it will run down, I mean, frankly, we expect it to start giving positively after another couple of years, because as I said, the SR value, so these are not parked SRs just because we don't like those assets. The effort on recovery is continuously on. And I would say conservatively after another 1.5 to 2 years, actual recoveries will start contributing positively to the overall P&L. But I don't want to guide at this point of time. You take the wholesale loss values, which is what right now? Wholesale loss...

Sudipta Roy:

Wholesale loss is about Rs. 50-odd crores per quarter.

Dinanath Dubhashi:

Rs. 50-odd crores per quarter. That conservatively, you can take continuing till FY26. It can only come down but not up from that.

Moderator:

The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal:

I have just two questions. So one is, I mean your wholesale GS3 has declined. So, congratulations for that. Just wanted to understand, last quarter, you had explained predominantly Rs. 1,000 crores in that was Supertech. So, has that account now been kind of sold down to another ARC or has got resolved?

Dinanath Dubhashi:

Yes, answer to that is yes. So, it was only Supertech. And a part of that Supertech is sold to ARC. We would have liked to sell the whole thing, but that we could not. So, it is just that. It is not that the asset is resolved. However, as you know, Supertech, we have always said that we are more than adequately provided, whether it is on the book or with ARC. It is adequately provided, and it is one of the accounts, which may actually say, see recoveries, say, one year down the line from here. It is in that stage of NCLT.

So don't read too much into the reduction from Rs. 400 crores to Rs. 175 crores. It is just part of Supertech going out to ARC. The important number is what we gave this time for the first time, Rs. 500 crores Net Stage 2 (NS2) in Rs. 9,500 crores. So, we -- last time, people were saying that, okay, I am saying that there will be no negative shocks. Based on what I'm confident? I'm confident based on the, number one, the momentum I'm seeing and likely to see, but most importantly, Stage 2 assets are just about Rs. 500 crores.

Abhijit Tibrewal:

Got it. Net Stage 2 (NS2) in wholesale is about Rs. 500 crores?

Dinanath Dubhashi:

That is correct.

Abhijit Tibrewal:

Got it. And sir, just one more question that I had. I mean, while we all have been talking long-term strategy here. I think, I mean, when Sudipta sir was making his opening remarks, I gathered that you were -- I mean, a little cautious on how things could be in the second half, especially rural cash flows and how demand could be given that inflation is going up etc. So just wanted you to kind of explain that in some more details?

Dinanath Dubhashi:

Sure. Number one, everybody knows that August rains were very bad. Also, the distribution of rain has not been very good. Reservoir levels are quite negative from last year. These are the 3 negatives in rural. What are the positives? Positive is that the Kharif crop is not that down from last year. It is more or less at last year's level. The Kharif is, in fact, 0.34% up actually.

Secondly, the MSPs are at record level, as you know now. So that works as a -- on the other side. So that is why we would not like to paint a negative picture in rural. It is very easy to paint a negative picture and then do better than that and positively surprise. We are only saying that we need to be cautious and see how demand progresses.

When you're in rural, it's good money, but you have to deal with seasonality. Now what we are doing to deal with seasonality? There are various things that we have already highlighted: number one, making sure that collection is very analytics-driven and remains very strong, both 0 DPD and further collections. That is number one.

Second, increasing disbursements to our 0 DPD existing customers. Always, one, they are safer, they pay on time more often than not.

And thirdly, that is not seasonal. My current farmer customer borrows more not when there is -- tractor is in season or whether the tractor demand is going up or down, it doesn't matter. Same for rural business finance. We know the lady very well. We know her for 1, 2, 3 cycles. And at that point of time, we can take much better exposure.

Fourthly, we are specifically making sure that in our rural business finance, the share of direct agri keeps coming down. It is around -- the share of direct agri is now around 25% to 30% at this point of time, more than 70% is non-direct agri even though everything is rural. So, the feeling I want you to give is seasonality and cyclicality is the truth of life.

I also wanted to say that what all we are doing to make sure that we smoothen out these cycles as much as possible. And there is one thing which Sudipta said, which you may not have heard is -- perhaps is the first 20 days of the season, we are seeing a very good season actually. So, the actual fact is going exactly opposite to what pundits say or what even I would have said. I'm no pundit, but I would have said that. But on the ground, I'm seeing very good pick up both for two wheelers as well as tractors.

Perhaps a fuzzy answer, but that is because it is something in future, and I don't want to be very emphatic about future -- lots of factors are playing, right?

Moderator:

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

Kunal Shah:

Yes. So normally, you tend to comment with respect to opex plus credit cost in terms of the trajectory. So, when we look at it, opex was slightly higher, credit cost was almost stable and what Sudipta also talked about in terms of 5 growth vectors.

And I think maybe in terms of enhancing the customer acquisition or heighten the brand visibility and all plus optimization of talent pool, that will also involve a lot of cost, okay. So, what are the anticipated spends towards these five growth vectors? And any change in commentary with respect to opex plus credit cost...

Dinanath Dubhashi:

No. Same commentary, will tend to 7%. Today, we are at 7.33%. In fact, this time I went ahead and actually split because I don't want to hide behind this opex plus credit cost and pepper over the increase in opex. The opex has increased. And I'm saying that it will be, as you rightly pointed out, we are doing several investments -- in brand, in IT, getting good people. It will remain sticky. I'm not necessarily saying that this percentage will go up. It will remain sticky for maybe next year or so. Sudipta, if I can say that?

Sudipta Roy:

Yes, it will be about a year or so.

Dinanath Dubhashi:

And then it will start coming down. And it is -- but it is not going up as fast as the spending measure because the operating efficiencies and productivity are also kicking in. But as a net of both this, the opex may remain sticky, credit cost will keep coming down and we are, hence, very confident of reaching our 7% guidance by FY26, the Lakshya period.

Kunal Shah:

Sure. And so, in terms of credit cost, ideally, maybe what is obviously you highlighted a lot with respect to collection initiatives. But was there anything maybe specific in this quarter that you are confident that 2.74% in retail. So, wholesale has hardly seen any credit cost during the quarter. But retail, when you look at it, it's still 2.74% and mix is changing more towards the higher yielding ones, okay? So apart from maybe on the two wheeler wherein we are focusing more on prime, but what is giving you confidence in terms of getting this down to? And what would be the stable state levels looking at the profile, yes?

Dinanath Dubhashi:

Okay. I mean I wouldn't like to comment on what will be the stable state. Our ambitions are very high, very high as in very low credit cost. But I can only say that it will trend down. You see that the reduction in this quarter is 2 basis points. I am not promising huge reductions every quarter. But yes, this two basis points, 3 basis points, 5 basis points, we will keep reducing steadily. Again, I'm not saying quarter-on-quarter, a particular quarter may go the other way. But continuously, it will keep reducing. Main reasons you see, component of Home Loans is going up, component of the higher variety of Rural Business Finance is going up, which continues with 99.8% collection efficiency. Home Loans, as I said, is going up. In Two wheelers, we are moving towards prime more. In Tractors, percentage of Kisan Suvidha is going up. Now as -- so, two things, big things, is one, as we said, products, which are much higher collection efficiency percentages are moving up -- number one. Repeat lending is continuously going up. And as we have always said, and we maintain is repeat lending has credit costs of about 1/3rd of new lending is going up. And even in new lending, the gradual shift to more prime. So that is how we have modelled it, and that's what our experience says. And as I said, our ambitions and the models are -- the targets we have are much higher, but I wouldn't like to talk about that.

Moderator:

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

Abhishek Murarka:

So, sir, one question on SR. So can you give some more granularity. So specifically, two things I'm looking for, I think, one, you anyway mentioned. One, what is the provision on this? And two, on this Rs 8,000 crores, if you can give any cuts, for example, how much of it is roads, renewables, how much of it is operational? Or I mean, may not be operational entirely, but what's the, let's say, completed to not completed parts of Real Estate. So, any kind of cuts that you can give for this Rs. 8,000 crores, it would be helpful.

Dinanath Dubhashi:

If we could give the cuts, we would have given it in the presentation, if we wanted to give. But completion-wise I can tell you, Real Estate completion, we said some number. So around, I would say, 83% complete is what we can talk in our Real Estate book. So overall, if we put, it is about 83% complete -- towards -- there are various projects. But if you put on a weighted average basis, 83% complete. So that's all. But most importantly, when the CFO, outgoing MD and the new MD, we are all committing that wholesale losses will be maximum Rs. 200 crores year-on-year till FY26. Please understand that we have tremendous amount of confidence that no shockers are coming from this SR book.

Abhishek Murarka:

No, sir, of course, of course. That was not the idea. Just to get a sense of the...

Dinanath Dubhashi:

More than this -- I mean you see that every quarter we are giving more and more, and we'll continue to do this. Don't worry.

Abhishek Murarka:

Sure. And sir, just the second thing in terms of understanding when you give in your presentation the split between Microfinance and Rural Group Loans. The difference is only because you're making a difference between the Rs. 3 lakh income segment and higher than Rs. 3 lakhs. So, in terms of ticket size or other administration monthly, let's say meetings or in terms of operations is there any difference between these two categories?

Dinanath Dubhashi:

You are right. Good question. As of now, no; but going ahead, yes. We are launching -- we have launched actually Rural LAP and Business Loans. These are the two products we are launching, which will be managed differently, very differently, very different rhythm, very different way of doing business. It is being -- and a different team of course reporting into the same business Chief Executive, but a different team. So -- but at this point of time, that portfolio is very, very small. But you're right that the rhythm is same. But more importantly, the resilience of these people to pay is much, much higher. Now the important thing, you asked one question, which is very important, that even if this is more than Rs. 3 lakhs, their income, the overall exposure cap, we have not removed. I believe that there are some players who have removed the overall exposure cap. The overall exposure cap -- exposure has been not only us, but for the industry. The overall exposure cap was about Rs. 2 lakhs. We have kept that same.

In fact, in most cases, we keep it at Rs. 1,50,000, but maximum we go is the overall exposure of Rs. 2 lakhs, not our loan, overall exposure of Rs. 2 lakhs. That's -- so you're right, we treat them -- not -- by don't over lend to them, treat them as if they're less than Rs. 3 lakhs. But the point I wanted to make is because of higher income, their ability to repay and repay on time is much, much better. I mean you can see, Rs. 21,000 crores now, we are collecting 99.8% on-time.

Abhishek Murarka:

What would be the difference in ticket size between the two categories? Average ticket size, just for the microfinance versus rural group loans?

Dinanath Dubhashi:

So, it depends on two things: it depends, one, on the FOIR of the customer. Second, it depends on the other loans that person has taken, right? So, it depends on the two things. So, let's say, more than -- because for both our overall limit is the same. So, if a microfinance customer has borrowed from somebody else Rs. 1,60,000, we will lend only Rs. 40,000 – or if she has borrowed -- and it works like that. So, we have not said that, okay, for Rural Business Finance, there is higher ticket size, for microfinance it is lower ticket size. It depends on what is her total exposure, what is her FOIR and because of that what is the gap that we have to lend.

Moderator:

We'll have to take that as the last question. I would now like to hand the conference back to Mr. Dinanath Dubhashi for closing comments.

Dinanath Dubhashi:

Thank you. So, I think I will not repeat anything that has been said other than that we here are very, very confident of continuing with the growth path that we have put and at the same time, continuously improving profitability ratios, not only of retail, but also overall profitability ratios as we keep reducing wholesale.

Reduction of wholesale enables two things: one is the convergence of the profitability ratios, and second most important thing is any possibility whatsoever of suddenly some P&L shock coming - we are very confident that, that is not going to happen. As we go ahead, we look at the future only positively.

Now that is as far as the company is concerned. I would like to wish you a very, very happy Diwali, happy Dussehra before that. And more importantly, would like to also state that it would be my last quarterly earnings call as the MD and CEO of the company, would like to put all my gratitude and all my thanks on record for all of you. All of you have been absolutely wonderful interlocutors, and it has been amazing to speak to each one of you. I have tried to take inputs from each one of you, learn and incorporate that in the way the company is managed.

The team is here to take the company ahead and more importantly, Sudipta has landed with his feet running. And in the 4 months that he has spent here, I'm very, very sure that he will take the company to new heights as we go ahead. So, thank you very much. God bless you. Happy Diwali and happy Dussehra.

Moderator:

Thank you very much. On behalf of L&T Finance Holdings Limited, that concludes this conference. Thank you for joining us. Ladies and gentlemen, 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