July 20, 2026

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: LTF

Security Code No.: 533519

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

Sub: Transcript of Investor(s)/ Analyst(s) meet – Q1FY2026-27 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 Q1FY2026-27 financial performance and strategy update held on July 13, 2026.

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

We request you to take the aforesaid on records.

Thanking you,

Yours faithfully,

For **L&T Finance Limited**

Apurva Neeraj Rathod
Digitally signed by Apurva Neeraj Rathod
Date: 2026.07.20 22:31:12 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance Ltd.

Q1 FY27 Earnings Call Transcript

July 13, 2026

Management Personnel:

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

Mr. Sachinn Joshi (Chief Financial Officer)

Mr. Raju Dodti (Chief Operating Officer)

Mr. Karthik Narayanan (Head – Investor Relations)

Moderator:

Ladies and gentlemen, good day and welcome to L&T Finance Limited Q1FY27 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 the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

We have with us today, Mr. Sudipta Roy, Managing Director and CEO; Mr. Sachinn Joshi, CFO; Mr. Raju Dodti, COO and other members of the senior management team. Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the call. Only publicly available documents will be referred to for discussion during the interaction in the call.

While all efforts will be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would in any case form part of the recording of the call. Further, some of the statements made on today's call may be forward-looking in nature. A note to this effect is provided in the Q1 results presentation uploaded.

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

Sudipta Roy:

Thank you. A very good morning, everyone and thank you for joining us today for the Q1FY27 Investor Call of L&T Finance. Joining me on the call today are our Chief Financial Officer, Mr. Sachinn Joshi, our Chief Operating Officer, Mr. Raju Dodti, along with other members of the senior management team of L&T Finance. Similar to our previous earning calls, today's discussion will be divided into two sections.

I will begin by sharing my thoughts on the macroeconomic environment, our business performance during the quarter, and the strategic priorities under Lakshya 2031. This will be followed by our CFO, Mr. Sachinn Joshi, who will take you through the detailed financial performance for the quarter. Post our commentary, we will be happy to take questions on the call.

<u>Macro-economic outlook</u>

Before we delve into the highlights of the quarter, I would like to give you some flavor of the current macroeconomic scenario and sectoral outlook, which becomes important given the volatility in the geopolitical arena and the impending worries of an uneven monsoon coupled with the impact of El Nino.

Over the past few months, the global economy has had to navigate geopolitical uncertainties, non-stop fluctuations in energy prices, disruption to supply chains, and changing trade dynamics between major economies. While these developments have introduced a period of volatility, India's macroeconomic fundamentals have continued to demonstrate resilience. The economy has performed better than expected throughout the year, while posting a growth of 7.8% in the fourth quarter of FY26, supported by healthy government capital expenditure, improved infrastructure creation, and resilient private consumption driven by a recovery in rural demand.

On the demand side, private consumption aided by discretionary spending has remained resilient so far, supported by both rural and urban demand. Structural reforms, favorable financial conditions, and the government's thrust on infrastructure spending have aided in investment activity and bodes well for sustained strength in demand conditions.

The market is exhibiting strong credit growth momentum as some sectors like microfinance have emerged from a prolonged period of contraction and most other sectors see a healthy uptick of consumer demand. Strong growth impulses are reflected in credit momentum as well that has picked up in recent months. Tailwinds from regulatory and government measures introduced in FY26 are expected to support credit demand going forward.

On the rural front, the progress of the southwest monsoon has remained an area of close attention for the entire financial services industry. While the season began with some regional variability and intermittent rainfall patterns, we are encouraged by the gradual improvement in monsoon activity over the last past few weeks with 70% of the country reporting normal or higher rainfall in July. Rainfall in the first week of July 2026 was 48% above the normal level and cumulative monsoon deficit till 10th July 2026 had reduced to 14% below the long period average. Mandi arrivals of rabi crops are running 8% higher and government procurement for kharif crops has seen a massive surge.

I would like to call out that the market concern we have seen regarding onset of El Nino and its projected impact on the monsoon. The L&T Finance team has extensively traveled in rural geographies in our core markets over the last few weeks and we see normal economic momentum. While the onset of the monsoon was slightly delayed, economic and agricultural activity remains strong and current reservoir levels are sufficient to sustain normal agricultural output and hence protect rural cash flows.

We remain hopeful that rainfall will continue to catch up during the balance of the season, supporting agricultural output, rural cash flows, and overall consumption. Encouragingly, rural demand indicators continue to remain resilient, aided by healthy government spending, continued infrastructure investments, and sustained focus on the rural economy.

We are confident that resilient domestic demand and coordinated policy support will provide the wherewithal to withstand the adverse impact of such uncertainties.

Q1FY27 Highlights

Coming to this quarter's highlights, I'm pleased to share that L&T Finance has delivered another strong quarter of profitable and quality-led growth.

During Q1FY27, we recorded our highest ever quarterly consolidated profit after tax of ₹902 Cr, representing a growth of 29% YoY. Our consolidated book crossed another important milestone, reaching ₹1,29,634 Cr, reflecting a healthy YoY growth of 27% with an RoA of 2.48%, reflecting a growth of 11 basis points YoY. This has been achieved on the back of robust quarterly retail disbursements of ₹23,852 Cr, up 36% YoY, with contributions from all our lines of business, demonstrating the continued strength of our diversified retail franchise.

The significant thrust in our disbursement momentum year-on-year has been a result of a continued focus on building granular distribution channels, our ever-expanding branch footprint, expansion of our digital acquisition capabilities, duly supported by our AI-powered next-gen credit administration framework, Project Cyclops, and our continued focus on strengthening risk guardrails, allowing us greater confidence on quality underwriting.

In the last call, I had emphasized upon our trajectory of paring of credit cost on account of implementation of structural credit policy measures in our businesses and the realization of positive dividends from the early implementation of Project Cyclops in Two Wheeler, SME, and Farm businesses. I'm pleased to inform you that consequently credit cost moderated to 2.54%, reflecting another quarter of sequential improvement of 10 basis points, supported by our continued focus on strengthening credit administration, collections excellence and AI-led portfolio management. A strong growth of 29% YoY in total income with a PPOP growth of 35% YoY was largely driven by sharp focus on managing yields across businesses, fee improvement, and efficient liability management. Stable NIMs + Fees at 10.47%, despite a competitive operating environment further demonstrate the resilience of our business model. This has resulted in our RoA improvement to 2.48%, while RoE increased to 12.71%.

While these numbers are robust, I would like to emphasize that we could have grown even faster. However, given the volatility in the economy, we chose prudence over aggressive expansion, maintaining our emphasis on responsible growth, disciplined underwriting, and superior portfolio quality. We proactively tightened our credit guardrails during the quarter, deliberately letting go of about ₹1,000 Cr to ₹1,200 Cr in potential disbursements, foregoing a few percentage points of additional growth to firmly protect our asset quality. It is important to note that though our Lakshya 2031 asset growth target is 20%+ CAGR over the five-year period, whenever the market and credit conditions are conducive, we would use that opportunity to grow our asset book in a risk-calibrated way at a faster pace than Lakshya goals, as has been the case during this quarter. However, we will never compromise risk for growth as articulated in our risk-first, tech-first approach.

Update on Lakshya 2031 – A Strong Start

I would now like to share an update on our Lakshya 2031 goals, which marks our pivotal leap from 'Transformation to Delivery'.

As many of you would recall, during our last earnings call, we formally launched Lakshya 2031, our five-year strategic roadmap that marks our transition from institutional transformation towards sustained delivery.

I am pleased to state that we have begun this journey on a strong footing. While our profitability metrics continue to improve quarter after quarter, our immediate focus remains on maintaining consistency in execution. We recognize that Lakshya 2031 is a 5-year journey and therefore our endeavor remains focused on delivering sustainable growth, while steadily improving credit cost, profitability and returns over the course of this strategic plan.

Briefly talking about the targets enshrined in the Lakshya'31 strategic plan:

- We had set ourselves a Book growth CAGR of 20%+ over the Lakshya period. As explained above I am pleased to report that we are tracking well in line with this target, achieving a robust 27% growth in Q1FY27. This was supported by a strong disbursement momentum across all our lines of business and secured as well as unsecured products, with a 126% YoY growth in Personal Loans, a 41% YoY Cyclops powered growth in the Two Wheeler Finance segment, a 24% YoY growth in Rural Business Finance, a 22% YoY growth in Housing Loans, a 23% YoY growth in SME Finance disbursements and a 11% YoY growth in Farmer Finance disbursements.

  Notably, one of the important developments during the quarter has been the continued collection efficiency normalization of our Rural Business Finance portfolio to pre-crisis level, which has given us the confidence to resume the growth trajectory of the business albeit within the MFIN guardrails and our proprietary risk administration frameworks. We have started the work of implementing Project Cyclops in our RBF vertical and is expected to complete before the conclusion of FY27.

  Across our Urban business lines, we continue to maintain our sharp focus on sourcing undiscovered prime, prime, and prime-plus customers who exhibit strong credit resilience. This disciplined approach has led to the prime customer share in our Two-Wheeler Finance disbursements steadily increasing to ~90% for Q1FY27. Our journey towards building a prime-dominant urban portfolio that showcases true resilience across business cycles continues unabated, firmly underpinned by our robust credit and risk administration frameworks.

- Second, on the Credit Cost front, we will endeavour to drive Credit Costs down to a level of 2% or less over the Lakshya period. Over the last few quarters, considerable effort has gone into strengthening our underwriting framework, collections infrastructure and portfolio monitoring capabilities. The continued moderation in credit costs and improving asset quality during the quarter provide us with confidence that these structural interventions are delivering the intended outcomes. Additionally, we have commenced participation in the Central Government's Credit Guarantee Schemes, namely CGFMU and CGTMSE to create an incremental safety net for select cohorts of our Rural Business Finance and SME portfolios and shield the balance sheet from cyclical volatility.

  We believe there is still a significant headroom for further improvement. As our newer portfolios continue to season and our proprietary AI-led underwriting and portfolio intelligence engines mature further, we expect our asset quality to strengthen progressively over the coming quarters. This remains one of the most important levers for improving our profitability metrics under Lakshya 2031.

- Our Return on Assets (RoA) target remains in the range of 3.0–3.2% for FY31. Against that, we recorded an RoA of 2.48% in Q1FY27, vs. 2.37% in the corresponding quarter in FY26, up 11 bps YoY. We remain committed to work on achieving the 2.8% RoA threshold in Q4FY27 as communicated earlier.

- Against a Lakshya 31 RoE target of delivering a Return on Equity (RoE) in the range of 16-18% by FY31, RoE increased to 12.71% in Q1FY27 from 10.86% (RoE after macro prudential provisions) in Q1FY26.

<u>Operational Priorities for FY27 – Translating Lakshya into Execution</u>

As we look ahead, we have identified three key strategy objectives for FY27, namely number one, Driving Cross-sell and Up-sell. Number two, Productivity Enhancement and number three, Embedding Tech DNA across the organisation. These capabilities are critical to achieving our short-term and long-term business targets while building sustainable capabilities for future growth.

LTF has one of the largest customer franchises in the BFSI sector in India, totaling to ~3 Cr customers and we see significant opportunities to deepen relationships with this large available pool. Cross-selling remains a major focus area for us under Lakshya 2031. We're trying to reinvent the traditional cross-selling approach through the use of our proprietary multi-agentic framework, which will help us identify, originate and fulfill cross-sell workflows to leverage the large customer base. We'll give more details on this later during the call.

Secondly, we continue to drive productivity enhancement across all our lines of business, primarily focused on frontline employees through customized productivity dashboards.

Third, in line with the strategic objectives of embedding AI-empowered tools and processes, we have taken the task to inculcate a Tech DNA in all parts of the organization to build a future-ready workforce. This would entail identifying AI champions across the organization to help proliferate the use of applicative AI directly into everyday activities. As I've highlighted in previous quarters, strategic investments in proprietary AI tools spanning hardware, software and market-leading talent remain foundational to how we sell, underwrite, collect and operate.

These strategic objectives are central to our structural evolution into a risk-first, tech-first, AI-native, multi-product retail financier of choice.

Building an AI-native Financial Institution

As we start our Lakshya 2031 journey, our objective is no longer to be merely an AI-enabled lender. Our aspiration is to build India's leading AI-native Retail Financial Services Institution.

What differentiates our approach is that we have consciously invested in building proprietary technological capabilities. Rather than deploying isolated AI use cases, we have architected an integrated intelligence platform that spans the entire lending lifecycle, from customer acquisition to underwriting to portfolio management, servicing, collections and customer engagement. This was articulated as our technology vision statement during the Investor Digital Day in November 2024 and we have continued to execute the envisioned architecture in a disciplined fashion.

Today, 2 years later we are pleased to share that our technology platform is powered by 1,000+ technology and data science professionals who have built an in-house deep tech stack on customer intelligence, credit intelligence, portfolio intelligence and service intelligence. The same has been built out on an open API and microservices-based architecture leveraging 100+ proprietary scorecards, 7 alternate data channels and unified customer data governance platform.

The first leap of faith in this journey was architecting Project Cyclops, our next-generation AI-powered three-dimensional underwriting engine, which now serves as a prime example of effective technology driving growth and building resilient credit quality. Project Cyclops has now been operating for 2 years in our Two-Wheeler business, and has underwritten a portfolio of more than ₹12,000 Cr and consistently outperforms industry risk benchmarks by a wide margin. To illustrate, performance of Project Cyclops in our Two-Wheeler portfolio has been outlined in Slides 13 and 14 of the investor presentation.

Project Cyclops is also live in our Farm Equipment Finance, Personal loans and SME businesses and exhibiting excellent headline incomes. We'll make those outcomes public as and when we cross the seasoning threshold of 24 months. We intend to take Project Cyclops live in our Rural Business Finance and Mortgage businesses during FY27.

Project Nostradamus is our second proprietary tool completely built in-house to enable enterprise-wide portfolio intelligence. Project Nostradamus is currently live in Two-Wheeler and Personal loans in a beta-mode and we intend to implement this for our RBF, SME and Farm businesses in FY27. This platform is already delivering measurable outcomes in predicting and containing portfolio risk at granular micro-market levels in our Two Wheeler Finance business, enabling our business teams to undertake automated stress testing, generate real-time collection actions and proactively identify emerging portfolio risk significantly earlier than traditional monitoring frameworks.

Our new initiative is to rapidly democratize AI across the organization. Rather than limiting AI capabilities to a central technology function, we are embedding intelligence directly into day-to-day workflows of our operating teams through a growing suite of proprietary AI co-pilots.

Our flagship underwriting co-pilot, Project Helios has already processed approximately 39,000 underwriting files and materially reduced turnaround times across SME Finance and Home Loans. Project Orion, our conversational portfolio management co-pilot built on Project Nostradamus, has already serviced more than 3,000 business queries enabling faster portfolio insights for our operating teams. ShigraM has automated more than 4,000 mortgage legal files across 11 vernacular languages while our mortgage policy and pricing assistant today services more than 200 business queries every day across 15 Indian languages. During the quarter, we also launched Project Argus, an AI-powered fraud screening engine for SME Finance, further strengthening our risk management capabilities. Please refer to Slide 16 of the investor presentation for further details.

Another significant milestone during the quarter has been the rollout of Project Canyon, our proprietary AI-powered loan origination system for Gold Finance.

Built entirely in-house in under four months, Project Canyon combines more than 16 integrated systems, over 60 APIs and 12 business services into a scalable architecture capable of nearly supporting 30x future business growth. More importantly, nearly 60% of its codebase has been generated using AI-assisted development tools, demonstrating how AI is increasingly transforming not only our lending decisions but also the way we engineer technology itself. The platform's embedded agentic AI assistant, Ginni, together with the context-aware asset capture and microservices architecture, is already enabling faster turnaround times and superior customer experience while providing the flexibility to rapidly respond to future regulatory and market changes. Please refer to slide 17 of the investor presentation for further details.

Update on Project Hercules

As I mentioned earlier, I'm pleased to announce our next-gen, Agentic AI-based service and cross-sell platform Project Hercules, which is being built completely in-house. The platform is designed to deliver hyper-personalized customer experience at scale. At its core, Project Hercules leverages a central data repository to build a comprehensive customer golden record. This unified data feeds into an advanced AI decisioning layer utilizing predictive analytics and propensity models to dynamically generate precise next-best offers. Here we are integrating agentic AI into our core orchestration layer to autonomously manage lead identification, origination, and fulfillment while executing the hyper-personalized engagement through all our customer touchpoints, our PLANET app, WhatsApp journey, or outbound voice bots. By unifying our lead management and loan origination systems into this intelligent omnichannel ecosystem, Project Hercules will significantly elevate service excellence, drive operational efficiencies, and maximize cross-sell velocity across our entire portfolio. We are targeting rollout of this platform by Q3FY27.

To support the exponential growth of these in-house AI capabilities, we are investing in our own private cloud build-out. Crucially, this strategic transition to an open-source private cloud will be 70% cheaper than relying on hyperscale clouds over a 5-year total cost of operation. Concurrently, to support our intensive ML and AI workloads, specifically for running open-source LLM and SLM packages, we have initiated the design and procurement of high-performance GPU server augmentations. Moving forward, we are aggressively prepared for massive cloud consolidation, targeting the migration of workloads from public to our internal private cloud infrastructure starting in Q3 and Q4 of FY27. By continuously strengthening this foundational infrastructure, we are unlocking three critical outcomes for the organization, driving sustained growth, ensuring improved credit quality, and achieving significantly reduced opex. Please refer to slide 18 of the investor presentation for further details.

We believe that these capabilities will progressively improve customer acquisition, strengthen portfolio quality, and reduce operating cost and enhance operating leverage over the coming years. As our AI models continue to mature and our proprietary data ecosystem expands, we expect technology to become an even stronger competitive advantage for L&T Finance. We firmly believe that this AI-native operating model will also become one of the defining competitive advantages of L&T Finance under Lakshya 2031.

Update on Gold Loans Business

Now I would like to give you a brief update on the scale-up of our Gold loan business. Following the successful implementation and acquisition and integration of the portfolio last year, our focus has been on rapidly expanding our distribution footprint.

During the quarter, we expanded our Gold Finance network to 343 branches, adding more than 200 branches since the acquisition. The business has grown to a book size of ~₹3,800 Cr, registering a growth of over 180% YoY. On the footprint expansion front, our speed to market remains exceptional. Following the launch of 200 branches in FY26, we are now working on deploying ~500 new branches in FY27, accelerating our velocity to ~1.4 branches addition daily.

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

Sachinn Joshi:

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

Quarterly Performance:

- Consol NIMs + Fees for the quarter stood at 10.47% vs 10.22% for Q1FY26 and 10.47% for Q4FY26
- Consol PAT for the quarter at ₹902 Cr, up 29% YoY
- Quarterly retail disbursements stood at ₹23,852 Cr, up by 36% YoY
- Retail book stands at ₹127,535 Cr, up 28% YoY. Our Consol book stands at ₹129,634 Cr, up 27% YoY
- Consol RoA stands at 2.48%, up 11 bps YoY
- Consol RoE at 12.71%, up by 185 bps YoY

Retail Businesses:

Rural Business Finance

The business registered quarterly disbursements of ₹6,961 Cr, up by 24% YoY, mainly on account of improved collection efficiency and sectoral trends. The book size reached ₹32,493 Cr, up by 22% YoY in Q1FY27.

Farmer Finance

In the Farmer Finance vertical, quarterly disbursements stood at ₹2,453 Cr in Q1FY27, up by 11% YoY. The book size reached ₹17,514 Cr, reflecting a growth rate of 11% YoY.

Urban Finance

The segment, which comprises Two-Wheelers, Personal Loans, and Mortgage Loans businesses, saw a 57% YoY jump in overall quarterly disbursements to ₹10,787 Cr. As a result, the overall book size increased to ₹63,615 Cr in Q1FY27, translating into a 32% YoY growth.

- **Two Wheelers:** The business registered quarterly disbursements of ₹3,006 Cr in the quarter, up by 41% YoY. The book size increased to ₹15,068 Cr, up 22% YoY. With 90% of June 2026 Two Wheeler disbursements in the Prime segment, we continue to prioritize high-quality growth and optimized risk-adjusted returns.
- **Personal Loan:** In the Personal Loans business, we achieved our highest ever quarterly disbursement of ₹4,380 Cr, translating into a stellar growth of 126% YoY, with the book size at ₹16,917 Cr, an increase of 80% YoY.
- **Home Loans / LAP:** In the Mortgage Loans business, we achieved quarterly disbursements of ₹3,401 Cr, up by 22% YoY. The book size reached ₹31,630 Cr, an increase of 20% YoY.

SME Finance

In the SME business, quarterly disbursements stood at ₹1,567 Cr, up by 23% YoY. The book stood at ₹8,884 Cr, up 28% YoY. The growth in business volumes was aided through an increase in direct sourcing and an existing strong network of distribution channels.

Gold Finance

In the Gold Loan business, quarterly disbursements stood at ₹1,928 Cr, up by 26% YoY. The closing book reached ₹3,829 Cr at the end of the quarter, representing a significant growth of 182% YoY.

Let me now hand over the call back to Sudipta to make his closing statements

Sudipta Roy:

Thank you, Sachinn. In summary, we are satisfied with our performance in Q1FY27, where we have focused on relentless execution. With the significant investment made across technology, engineering capability, AI infrastructure, branch expansion, and talent, we are expecting operating leverage to play an increasingly meaningful role in improving profitability, improving operating efficiency, which together with lower credit cost will be an important driver of RoA and RoE expansion over the Lakshya 2031 period.

I thank you all for a patient hearing. The floor is now open to questions.

Moderator:

Thank you. We will now begin the question-and-answer session. The first question comes from the line of Kunal Shah with Citi Group. Please go ahead.

Kunal Shah:

Yes, thanks sir for such a detailed presentation and the opening remarks, particularly touching upon the entire AI initiatives. So, few questions. Firstly, in terms of the NIMs + Fees, so overall it still sustained at 10.47%, but there has been a decline in the NIMs if we really look at it, while other income has actually gone up. So, what are the components of it? Any impact of excess liquidity which would have been there? If you can just highlight what is leading to that kind of a deviation in NIMs+Fee income and the sustainable trajectory.

The second question is on growth. So particularly on the Personal loan side, the growth has been quite strong. So, if we can highlight some guardrails and the profile that we are keeping in mind just to ensure that asset quality out there is sustained.

While at the same point in time, we had seen some slower disbursements on the SME and Gold Loans compared to those of last quarter. So, is it something very new indicated that you have let go of some disbursements worth this in these two particular segments? Yes, those are the questions.

Sachinn Joshi:

Okay, Kunal, thank you, thank you for your comments. Let me first take up the NIMs+Fees related point. This is Sachinn here. So, we can see clearly that the NIMs have reduced by 24 basis points from 8.78% in Q4 to 8.54% in Q1FY27. The yields, if you look at, have actually gone up by one basis point, but our debt-equity has been rising, which is leading to interest costs going up by 25 basis points.

Actually, Weighted Average Cost of Borrowing (WACB) is up just 3 basis points between the two quarters, you know, moving from 7.17% to 7.20%. But debt-equity which was 3.73x, has gone to 3.97x, about 0.24x higher. One reason is of course increased borrowing to fund the growth and the other reason is also due to the geopolitical situation being a bit difficult on account of war in Iran, we had maintained slightly higher surplus liquidity of close to ₹4,200 Cr. The overall liquidity was ₹13,000 Cr +. So, the net result has been a reduction in NIM by 24 basis points. However, what is worth noting is that this surplus has been deployed in various instruments on which we have also earned an income and which has been booked under the head fee and other income.

So, when you look at the NIM compression, you should actually look in totality and that's the reason we always request analysts and investors to actually look at the metric of NIMs + Fees and other income just to make a comparison, which has actually remained at exactly the same level. It's a coincidence, but previous quarter also it was 10.47%, this quarter also it is 10.47%.

So there is this other income which actually includes some of the, you know, surpluses which were deployed, the income is coming in that fee and other income, correspondingly the interest cost is part of the NIM. So that's the reason you see this difference. I hope I have answered the question.

Kunal Shah:

Yes, and besides this there is no element in the other income of any maybe any SR recoveries or something which is there or maybe it's purely on…

Sachinn Joshi:

No, so Kunal, the ARCs we keep, you know, actually there is a fee which is paid to ARCs, but there are sometimes when we have small incentives and all. So other income nothing really worth, you know, talking about, let me put it this way.

Sudipta Roy:

Okay, thanks Sachinn. Kunal, on the growth question, Personal Loans continue to, you know, do well and that is primarily because the sort of the thorough and disciplined execution of our implementations with the digital partners. Now you see we have now got four digital partners, which is primarily CRED, GPay, PhonePe, as well as Amazon.

And these are the main large ones, we have a couple of smaller ones as well, but these are the four main large ones. Now what happens is that we have been sort of working on smoothing the digital journeys and sort of removing friction from our workflows consistently quarter after quarter. And because these are platforms which have a large number of customers and we tend to focus on salaried customers.

Our objective is to build a large salaried Personal Loans book, right. So, we focus on our salaried customers and with a largely frictionless optimized channel, as and when the visibility of our loan programs increases across these platforms, the volume tends to grow. Now we have been adding partner after partner and optimizing these partners' velocity, so it has continued to grow.

And we have been embedding Cyclops now into these journeys, right. And the fact is that Cyclops also has been embedded to many of these digital journeys and so we are very, very confident of the credit quality that is coming through. First thing which I mentioned was that our focus is only on building a salaried, a predominantly salaried -- we do loans to self-employed as well, but our focus is building on predominantly salaried book in our Personal loans business.

We have strong guardrails, Cyclops has been implemented, you know, the credit parameters on the Personal loan business, what it was one year back vis-a-vis what it is right now, there is a significant improvement and the fact is each and every parameter, every credit parameter with every passing quarter is tending lower and becoming better with every passing quarter. So as of now, we remain, you know, satisfied with the trajectory of this business.

Yes, you have seen some heady growth in percentage terms because of the base effect. You know, last year Q1FY26 our disbursement, compared to that, our disbursement has grown definitely, but again that is attributed to a much lower base. As the base grows larger, the percentage growth rates will reduce over the next couple of quarters. However, we remain committed to growing this business in a risk-calibrated fashion.

On your question on SME and Gold Loans, yes, SME we have been cautious during this quarter primarily because, you know, we were cautious about the fallout of the, you know, West Asia war on certain business lines as well as certain sectors, so we have been cautious and we sort of on our own cut disbursements in some of the SME sort of cohorts.

So, we have done that. Gold Finance again, you know, April was a month in which the new RBI guardrails came into effect where assessing customer basis a tiered loan demand became mandatory as per RBI guidelines and, you know, it is not only us, but the entire industry also saw an impact of adjustment to these new guidelines.

As a result of that, you know, we erred on the side of side of caution just to make sure that we are completely compliant with the RBI guidelines. So just like across the industry, some of the origination volumes fell; we saw a fall in our origination volumes in the month of April. However, there has been continuous improvement in May and June, and I expect the Gold loans business to have a normal growth trajectory in Q2FY27 because that period of adjustment and learning in Q1FY27 is behind us. So, I hope that answers your question.

Kunal Shah:

Sure, yes, that answers, yes. Thanks a lot.

Moderator:

Thank you. Next question comes from the line of Shreya Shivani with Nomura. Please go ahead.

Shreya Shivani:

Yes, thank you for the opportunity and congratulations on a good set of numbers. Sir, first question is on the Personal loan book itself. What I can see is that obviously the Cyclops was embedded into this in Q2FY26, but your Nostradamus is only getting implemented in this quarter, right? Just wanted to understand how much, I mean I understand the control you would have had at the underwriting level, but without the monitoring AI engine, what kind of confidence do you have with the book you're underwriting? If you can give some color around not in the terms of salaried non-salaried, but in terms of what's the ticket size of the book that you've been putting out through these platforms.

My second question is on the farm, the Tractor business. It any color on the slightly slower trend over there? Were we cautious? Are we taking geography-wise focus because you have mentioned monsoon, some states may have reservoir benefit etcetera, other states may not have those reservoir benefit and if the monsoon is slower, we may get hit.

And third is on the cost of funds in terms on what are we going to do going ahead? I understand the first quarter we were piling up liquidity, etcetera, but going ahead what will be our strategy and how much decline in cost of fund can possibly happen through the next three quarters? Those are my three questions? Thank you.

Sudipta Roy:

Thank you. So, I will take the first two questions, first two parts and Sachinn will take the third part. So, on the Personal loans business, yes, Nostradamus has got just implemented. First average ticket size on our Personal loans business remains between ₹2.6 lakhs to ₹2.8 lakhs. So, I can confirm that we do not do small ticket Personal loans, we are not in that very small, very small ticket lending business.

Out of which our large partners, which is basically our large digital partners have a significant part of the origination in which with every large digital partner we build individual scorecards. So, it is not that one scorecard for the all the originators. We look at the data and the cohort of customer each partner has and then we build those scorecards accordingly and then we also cherry-pick some of the customers from this particular cohort and then show our offers.

So, in a way we underwrite the customer, pre-underwrite the customer and then also underwrite the customer when the customer goes through the digital journey just to make sure that our digital sort of acquisition is of a very, very high quality. Yes, Nostradamus has just got implemented, but the fact is that we have been seeing dropping risk levels in our Personal loans business because of the tightening of the credit guard rails.

See, one of the things which we have done is that if you look at our Personal loans origination, our Personal loans origination, maybe 4 years back was 50-50 self-employed and salaried. Right now, it is largely salaried. So, as a basis of that pivot, the credit parameters on our Personal loans business has sort of improved continuously over quarter after quarter.

And now with Cyclops and on top of that the monitoring through Nostradamus, we are very, very confident of maintaining a good headline outcome credit quality on our Personal loans business. In fact, our gross non-starters in Personal loans business is lower than 3% right now. That means for the number of customers whom we lent to, 100 customers, only in the first couple of months only about 3% of customers bounce their first cheques and again net non-starters is much, much lower.

In fact, we are sort of tracking the lowest net non-starters in our Personal loans business in the last couple of quarters as of this month. So, we remain very, very confident on the trajectory of our Personal loans portfolio and we will grow it in a risk-calibrated fashion. And now that Nostradamus as well as both Cyclops are implemented, we are extremely sure that this will prevent us from biting off any sort of unnecessary risks in this business than what is warranted.

On the Tractor business, you have to remember that quarter 1 in general is a little soft quarter for the Tractor business, barring the month of June, when prior to monsoons the business disbursements takeoff. However, this quarter as you know that monsoon was slightly delayed, so we saw some delayed takeoff in tractor volumes in the month of June.

Like towards the latter part of June, tractor volumes started taking off as the rains finally arrived, but we will see good impact of the tractor volumes in the month of July and August as the monsoon keeps on spreading. So overall in the Tractor business, the risk numbers also remain very, very stable. The net non-starter in the Tractor business also keeps on going down and we are happy with the sort of risk trajectory risk of the Tractor business. So, I hope I have answered that particular first two parts of the question. Sachinn for the third part.

Sachinn Joshi:

Okay, on the third part on the interest rate scenario, I think is changing by the day. Frankly. the macroeconomic environment keeps changing and the liquidity requirements keep changing. So, what we had done is at the end of this quarter, first quarter itself we had brought down the liquidity, the surpluses to about ₹9,000 Cr levels, which is the norm for us.

But there is no assurance that things will really be continuing to be normal. So, depending on the situation we will keep either increasing or maintaining the same levels as in the earlier quarters. But what the overall impact should be seen in terms of how Reserve Bank of India has actually assured that there will be enough liquidity which will be kept in the overall system.

And if that is the case, then I think the interest rates, especially the overall yields will not spike and if there is no sudden spike, we would be in a position to continue borrowing through various instruments like PSL as well as borrowing through the other domestic financial institutions.

We have got the rating for mobilizing funds internationally, I think this is not the time currently, but yes diversification is also possible in case the situation becomes favourable. As far as the second quarter is concerned, we believe that directionally it may move up by 5 basis points, 7 basis points.

Frankly, we will have to wait and watch the situation over the next few months. But on an aggregate basis, FY27 I think may go up by about 4 to 5 basis points on an overall basis. So yearly WACB may actually go up from 7.35% for FY26 to maybe about anywhere between 7.35% and 7.40% that is what we are currently envisaging.

Shreya Shivani:

Right. Okay, this is useful. Thank you so much and all the best.

Sachinn Joshi:

Thank you.

Moderator:

Thank you. Next question comes from the line of Avinash Singh with Emkay Global Financial Services Limited. Please go ahead.

Avinash Singh:

Yes, Hi Sudipta, good morning. One question is on your RoA, RoE journey in Lakshya 2031. Broadly it expect kind of a RoA to improve 60 basis points from here on a pre-tax basis 80 basis points kind of expansion. Now over the journey, I mean how do you see the contribution from credit cost and opex to come because by and large it seems given the asset mix, the NIMs plus fees is already where it should be?

So, I mean how do you see I mean this 80-basis points kind of a improvement to come from? I mean of course when SR (Security Receipt) gets kind of realized probably that will release something, but rest I mean if you can explain that okay how this 80-basis points expansion in PBT RoA is going to happen?

And particularly that in the backdrop if at all there is going to be something from the insurance regulator on the commission part because insurance commissions are a reasonably healthy kind of proportion of your fee income? So that is first question.

And second, if at all I mean at this juncture what is your reading on El Nino and its impact I mean if at all going to be on your rural portfolio growth and asset quality? I know it is too early and I mean rains has been kind of improving, yet I mean your assessment so far? Thanks.

Sudipta Roy:

Okay, thank you. I will take the second part of your question first and then we will come to the first. So, see I have been traveling around quite a bit for the last 2 months. And frankly, I see nothing wrong in the economy. In fact, I was in Jabalpur about three weeks back and wherever I went, in fact the particular Two Wheeler dealer which is also one of the largest auto dealers in Jabalpur, he said that he has had a record May and June, he just does not have stocks. I travelled to rural areas also, rural area - things are okay. It is not that we could see any significant headline risk emerging. Yes, rains are delayed, El Nino is supposed to lead us to a sort of a lower-than-average monsoon, that is what is projected.

But the fact is that if I look at till 10th of July rainfall is only about 14% sort of deficient. Now the IMD projection is about 10% deficient and if I look at -- what we have done is that we are also very carefully projected the reservoir stocks all across the country and because of two back-to-back good monsoons before this year's monsoon, I think the reservoir levels are at an acceptable level across the country.

Barring a couple of locations in South India, the reservoirs across the country are at an acceptable level. So, I do believe that even if we have a 90% monsoon, things are going to remain quite okay. Things are not going to fall out or break suddenly. And you have to understand one thing the Microfinance industry has come out of a major asset quality cycle. The Microfinance industry has deleveraged from a peak book size of ₹4,40,000 Cr to about ₹3,30,000 Cr right now. So, the industry has deleveraged ₹1,10,000 Cr and always remember that during a crisis period your underwriting guardrails go up.

So, the book that you generate during the period is obviously of a much higher quality. So typically, after any asset quality cycle you typically have an 18 to 24 months of Goldilocks period where you really do not see any emergence of risk. In fact, in the microfinance industry, in spite of whatever El Nino worries etc. have been there, I believe that it would be a pretty normal year and I do not see any emergence of pockets of risk anywhere. The industry is being responsible, the industry is adhering to the MFIN guidelines, the number of customers with more than, you know, three loans outstanding I think is lower than 5% as of now, right. In the industry.

So overall the industry has deleveraged. So, I think the worries on this are overdone. Right? So, and whatever our travels have told us that the economy is robust, the economic activity is robust and I expect that to continue in spite of a little maybe, you know, monsoon can be a little subpar, but in spite of that things will continue as normal.

The Tractor business, again, you know, there might be localized disturbances, but overall, we expect us to have a reasonably normal year. And you would note that Tractor business was the second business we implemented Cyclops after Two wheeler. So, Tractor business actually has been operating on Cyclops for almost 18 months now.

And the headline results like Two Wheelers that we see of the Cyclops generated Tractor portfolio is quite good and in fact we had the first half-yearly collection cycle that went through on the Cyclops generated portfolio and the outcome is quite good.

So overall we are reasonably confident that even if El Nino etc. marginally impacts the rainfall, you know, it will not have a very large impact on our portfolio and we are sufficiently well capacitated to handle it because of our prudent generation as well as, you know, the collections framework that we have already existing in most of the areas.

On your question on RoA and RoE trajectory, yes, we need to improve about, you know, 80 basis points, from whatever point we are currently at to get into that Lakshya threshold of 3% to 3.2%. Now out of that I do believe that 20 basis points will come from the disappearance of the drag of the ARC portfolio and that will happen over a couple of years from now.

You know, many of the assets are resolving, but it's another two or three-year journey for us. So, 20 basis points will come from there. I do believe that about 30 to 40 basis points will come from efficiency in credit cost as well as credit-related cost, which I call the cost of credit administration, specifically collections cost etc. So that is where it will come from. Some might come from business expansion as well, right.

A small bit can come from business expansion as well and that is how it will stack up. We are reasonably confident about achieving this by disciplined execution. We have been executing in a disciplined fashion so far and it is our commitment that we will continue the same similar close disciplined execution for the next five years during the Lakshya trajectory as well.

Thirdly, on the question on insurance etc., yes, we are aware of some of these developments, but I'd like to point out that it is not only, you know, it is not only for us, it is for the industry. And I do believe that the insurance industry along with the regulator and as along with the, you know, end consumers of the insurance products, which is the BFSI industry, will come to some acceptable solutions and outcomes on this. That is also the reason that we have kicked off the build-out of our payments business because, you know, as you know, payments can be a large fee revenue generator, but it will continue to build for us, right. So, it will be at least two to two and a half years before significant payment revenues are, you know, fee revenue on the payments business are visible on our balance sheets.

So, it is in a build-out phase, we are cognizant of some of the headline outcomes that might happen because of that because of regulatory norming and as a business we have factored that in into some of our plans and we will respond accordingly. But however, I'd like to point out that it is more of an industry issue, and it is not an issue for L&T Finance alone. Sachinn, you would like to take…

Sachinn Joshi:

No, I think you answered that. If there is any further question on this RoA issue then I can maybe talk about.

Abhinav Singh:

No, thanks. Thanks. Very clear.

Sudipta Roy:

Great. Thanks Abhinav.

Moderator:

Thank you. Next question comes from the line of Abhijit Tibrewal with Motilal Oswal Financial Services Limited. Please go ahead.

Abhijit Tibrewal:

Yes, good morning, sir. Thank you for taking my question. Just two things. One is while in the last question you just articulated what are the levers for RoA improvement, where you spoke about 20 bps coming from disappearance of the drag of the ARC portfolio and I think another 30-40 basis points where you spoke about improvement in credit cost and decline in credit administration.

So just trying to understand, I mean will this also include some improvement that we will see in opex over a period of time? I remember you talking about scale building in some efficiencies, but the fact that you kind of continue to invest, we are building this cross-sell engine that you spoke about in your opening remarks, you are I think also building your private cloud now which you mentioned over a period of five years is better or is more efficient.

So, on the opex bit if you could just explain how is the trajectory looking like. And the other thing that you just mentioned sir is that you kicked off your payments business. So just trying to understand overall whatever we have seen of the payments business until now, it's not really been a business which has been accretive to RoAs for most organizations until now.

So, are there pockets where you're looking to operate where the burn in the payments business will be much lower? And the other thing is until now we've seen most corporate or at least NBFCs acknowledge that they are using the payments business as a funnel for customer acquisition. So, if that is the case also for us, for which business is the payments engine going to act as a customer acquisition engine? Those two questions sir. Thank you so much.

Sudipta Roy:

Okay, thanks. You know, the first question again on the RoA tree, you know, obviously we are trying multiple things at once, you know, I would say it it's like executing in all fronts. One obviously very important is the cross-sell engine primarily because as you all are aware the acquisition costs of, you know, customers of selling products or deepening relationships with existing customers is probably one-fourth or one-fifth of acquiring a new customer.

So, in terms of acquisition cost, obviously it is value accretive. Obviously from a risk perspective, also selling to our known credit-seasoned customer from a risk perspective is also value accretive, right? Because it helps us predict the credit cost outcomes far with far greater degree of certainty than getting a new customer off the street.

So, from both sides, it's more value accretive. Secondly, obviously opex, opex is not limited to cost of credit or credit administration. Many of the agentic frameworks, for example, let's take this example, you know, our underwriting co-pilot or for example the legal co-pilot like ShigraM.

Average time to underwrite a sort of or interpret, not underwrite, to interpret in case of a Micro LAP business, the entire title reports and, you know, the title search and do the proper title searches could take anywhere from four to eight hours. Now with ShigraM that is down to 30 minutes to an hour.

So, like this, you know, many of the tools that we have, for example, you know, our mortgage co-pilot enables our sales guys to answer the query using their own prompt generation on the tool, rather than try to call back someone in the call center and try to get an answer to the query. Right. Or for example, you know, in our collections businesses, you know, our bot-driven self-cure rate is almost high as like 40% right now, especially in the Two Wheeler business the self-cure rate has gone up from 10% to 40%.

Now we are not using any human being to do this call, we are only using machines, right. So overall, you know, we expect that some of this technology sort of deployment will reduce the need for head count, though head count needs to finally do the sale on ground, you know, especially in the high touch-and-feel rural businesses will remain, but I do believe that a large proportion of our urban businesses will see efficiencies in head count as well.

So, over a period of time, I see a normalization in head count cost as well. It will be not be very sharp in the next couple of years, maybe in the next two to three quarters it will not be very sharp, but as we move into, you know, FY29 and FY30, the impact of all these sorts of implementations will be visible in our head count attrition as well. So, in a way, it will be across the organization.

The private cloud that we talked about, now see, it's a sort of, again, it's a leap of faith as I talked about, you know, we are trying to build much earlier because the fact is that we have been trying to push the AI envelope much earlier than many other organizations, the cost issue that comes with large AI usage is also very, very well upon us.

So, the fact is that because we have understood that this is something that we need to address at the beginning stage itself, otherwise it might end up undoing all the good that you want to do from a opex standpoint, we are starting to move towards building our own private cloud. However, can we run tier-one applications on private cloud? Probably the answer is no. But can we run our tier-three and tier-two applications on our private cloud? Probably the answer is yes. But again, it has to go through a period of, you know, reliability testing, a period of operational effectiveness before we can sort of say it is a success. Overall, we are trying multiple things on multiple fronts, we are not leaving any stone unturned. Maybe out of that 80% will be a success, 20% might not be a success.

But however, we are very, very confident that if 80% are a success, you know, that trajectory of RoA improvement that we have committed is more likely to happen, you know, over the Lakshya 31 time frame. And we are very, very committed to it. In terms of the payments business, yes, I understand that payments business is on its margin, if you're trying to build the payments business as a solo business you know, it at times it might not be value accretive.

You know, we have people with deep payments expertise within the organization, I have done payments myself for 25 years of my career, so I really understand this business very, very well, right. And so, our focus will be on parts of the payments business that are more value accretive - from a fee point of view and we will slowly provide more color to it as we go forward. We intend to build a payments business which is agentic in nature because we have a lot of expertise on the AI front, especially on agentic AI that our engineers are now building, we have decided to leapfrog the entire sort of normal payment and move into agentic commerce.

And we do believe that the movement to agentic commerce will unlock certain revenue dimensions that are not yet hitherto explored by the industry it is our thesis. Now the question is we are trying to implement this thesis, the thesis implementation might be a great success, it might be a partial success, or it might be a failure. You know, we really cannot put our finger on it and say, but the fact is that given the experience that we have, we are reasonably confident of success.

So overall over the next couple of quarters, we'll slowly start working on this business and see, our business is not to burn money to try to get customers. There are certain organizations who give cashbacks on UPI etc. and burn money and try to get customers, that is not our model. Our model is to independently go, first and foremost serve our own customers. And because we do not have a payments stack at this current point in time, there's a opex drag that we have been trying to facilitate payments for our customers.

Now the first objective is to eliminate that opex drag by doing that ourselves in-house. Right. The second thing is to intelligently build solutions through the agentic commerce model where our customers as well as some maybe new to organization customers might find benefit in those agentic commerce solutions and sign on to us in terms of the services that we provide. And last but not the least, we will test hitherto unknown areas, especially in the prepaid payments area where we are very, very confident that there are revenue pools lying especially in the fees front, which can be tapped very, very effectively by the organization.

So, payments will be a step-by-step build, it will not be an all-rushing build, it will be a careful calibrated build which will continue to build for the next three to four years because this is something that we are committed to in long term as a goal for diversifying our fee revenues and this is something that we will deliver during the Lakshya 31 period. I hope I have answered your question.

Abhijit Tibrewal:

Yes, Sudipta. That answers my questions. Thank you so much and I wish you and your team the very best

Sudipta Roy:

Thanks.

Moderator:

Thank you. Next question comes from the line of Chintan Shah with ICICI Securities. Please go ahead.

Chintan Shah:

Yes, thank you for the opportunity and congratulations on the quarter. So just firstly on Personal loans again. So, I just wanted to understand who are the key competitors and how does our yield stack versus peers? If you could help on that. And secondly, what differentiates us on the Personal loan front, whether it is faster TAT or customer experience and the sourcing would be largely digital only, I assume. So yes, that's the first question on PL. And secondly on AI investments. So, could you just elaborate on your AI investments, so what is the current run rate of AI-related cost and what proportion is variable based on the usage? Yes.

Sudipta Roy:

Yes, okay. So, on the Personal Loans part, you know, our key competitors is actually everyone else in the BFSI sector, right. Those who do Personal loans, they are our competitors. Now there are there are models of operation - there are certain organizations, especially the large banks, who operate on their own customer base. And through the DSA channel.

For us, we operate on our own customer base through the cross-sell to our, you know, credit-seasoned, you know, customers. We also operate marginally through DSA, if you see our DSA volumes, our DSA volumes are only 10% of our overall volumes. But the fact is that, you know, a large portion of our origination is through the digital partners who have a very large pool of customers as well as they're far more amenable to digital processes.

They allow very fine customer selection primarily because they see a large amount of the customer data, right. So they're able to give us, you know, a far more nuanced underwriting approach, especially on a joint scorecard development with target loss rate, so we exactly know what is the customer underwriting and what is the target loss rate. And, you know, the scale-up has been primarily because of digital journeys and friction sort of removal across all our channels.

Our average yield remains at about 16% and plus, though there are certain channels which deliver, you know, again, because we operate across the spectrum, our DSA channel will probably operate at a far lower rate. Because DSA channel we do prime salaried, our DSA channel will operate between 12% to 13%, some of our digital channels will operate at about 19%. Overall, our weighted average yield in the Personal loans business is about 16% odd, 16% plus is our weighted average yield in the Personal loans business.

In terms of the AI implementations, now see, there are a couple of parts, right. The fact for example, you know, there are core builds. For example, the core build would be like a machine like Cyclops or a machine like Nostradamus. Which uses probably it doesn't use agentic AI on a query basis it uses agentic AI, for example, Nostradamus uses agentic AI-based query system, but the core of the machine is built using machine learning where actually you do not have token costs that much, but the fact is that you run that machine and you have a continuous model upgradation cost.

Overall, we have spent roughly about ₹38 Cr to build Cyclops and overall we have spent roughly about ₹33 Cr for Nostradamus and ₹37 Cr for Cyclops, but the fact is that we are still in the process, for example, as I said, you know, for Microfinance as well as Mortgage, Cyclops will be implemented this year and Nostradamus will be implemented for other lines of business apart from Personal loans and Two Wheeler, so the cost on that continues, right.

Overall, you know, our token consumption as, you know, we had given out some token consumption in the last part of last presentation, I think if my memory serves me right, 240 Cr tokens was the consumption, you know, last quarter. Now obviously we are on Google Cloud and we are a completely a Google Cloud, of you know, a GCP suite user, so obviously we have a sort of a preferential deal with Google on usage of some of the some of the AI tools, though we use Claude Code for use in some of our coding.

See, right now I would say probably we can come back offline saying that what proportion of our total IT cost is variable AI cost, we can come back, you know, offline because I don't have that exact number available with me today. However, our overall IT cost is between about ₹100 to ₹120 Cr a quarter is our overall IT cost trajectory.

Sachinn Joshi:

Just to add, the Cyclops, Nostradamus and all these new projects that we're working on, the total amount, you know, taking into account the previous year capitalizations also is around ₹102 Cr at this point and there is some work in progress, capital work in progress which is there for the projects which we are currently working on.

Chintan Shah:

Yes, that answers, and probably I'll connect offline for the fixed and variable portion. Sure. Yes, thank you.

Moderator:

Thank you. Next question comes from the line of Abhishek Murarka with HSBC. Please go ahead.

Abhishek Murarka:

Yes, hello. Am I audible?

Sudipta Roy:

Yes, you're audible.

Abhishek Murarka:

Yes. Hi, Sudipta, hi. Congratulations for the quarter. So, my question is on this wholesale NPA. So, this is a quarter where after many quarters it has gone up a bit, although it's a small amount. But the question I have is one, if I look at the wholesale book of ₹2,000 Cr, how should we think about the health of that book going forward?

Second is in your guidance of credit cost coming down, have you factored any NPA coming from that book? And if not, then does that lead you to sort of rethink your guidance? And if you can share some color on the remaining book, I know it's small, it's just ₹2,000 Cr, but just that, any kind of color on the health of that book will be useful.

Sachinn Joshi:

Abhishek, let me take this, Sachinn here. The GS3 small increase that you are referring to, is actually part of a settlement that we have already done and whatever hit is to be taken has been already factored in. So, there is no further increase, it's actually transitioning between the two quarters, that's the reason why it is appearing as the GS3, but you will see the same amount actually getting knocked off in the next quarter. As far as the other assets on the book are concerned, they are all standard assets, so we do not really expect any hits coming out of that.

On the ARC resolutions we have already spoken about in the previous quarter, but let me just add the positive side of it. The PCR on the SRs, the security receipts, when we started off on this resolution process was 58% and that has now actually gone and increased to 68%. And the reason for that is that as per the RBI regulations, till the time all the assets domiciled with an ARC, till the time all the assets do not get resolved, any receipts out of resolutions of the other assets, need to be actually kept as part of that ARC's reserves. So whatever resolutions are yet to happen, this goes and adds to that buffer.

So, 15% -- 10% increase itself shows that there is a substantial buffer which has got created, which is actually not required because we do this mark-to-market on a regular basis. But we have that money and that's why we are very confident that, once the resolution start happening ARC by ARC, you will start seeing these credits coming into the P&L and our assurance has been that we will not take it to the P&L, but we will utilize them to create macro-prudential provision. So, I think that should give enough comfort to all of you.

Abhishek Murarka:

Sure. So that is on the SR part. In the existing wholesale book, it's all standard, but in your guidance of credit cost that I just mentioned, in your guidance of credit cost, have you factored any slippage from this book or it is purely just the retail movement, and you're not, this book is too small and it will run off so?

Sachinn Joshi:

No, no, no. Yes, it will just run off over a period of time, that's right. That's right.

Abhishek Murarka:

It's not factoring in.

Sudipta Roy:

Abhishek, I will add to what Sachin says. Some of these assets etc. who are in the ARC we have seen significant movement in their resolutions. Without naming the asset, one particular asset which was in Bangalore got resolved in terms of the sort of the deadlock that was there between the developers and then it has got launched, the project is getting launched, right. And that project will take three years to finish, it's a massive project. So, the cover on that particular case is almost three times that we have, right. In terms of current valuation.

So, most of these projects will take the next two to three years to resolve and our wholesale team, especially our resolution team, has reasonable confidence that over a period during the Lakshya period we'll end up getting a good amount of over-realizations than what the book value of some of these assets are. And as we have committed, we will not take any of the residual realizations from the book value of -- these over-realizations into the P&L, we'll try to create a buffer, if we get that particular opportunity.

And as Sachinn said, we are already getting resolution some of these assets which have gone into that asset pool. Because the SR asset pool has a couple of other assets that cannot though, that particular SR pool cannot be closed. So, it obviously shows up in increased PCR on the overall SR pool. So, but again to reiterate, the credit cost assumption does not assume credit costs from -- as of now from any wholesale.

Sachinn Joshi:

Yes, because the GS3 has only one asset which is Supertech, which the PCR currently is at about 61% and we believe, because we keep doing this fair valuation every quarter, and there is there has been no further requirement to make any further provisions, and that's the reason there is no need for factoring and hence it has not been done.

Abhishek Murarka:

Okay, very clear. Just another quick question is on this rural group loans, the distribution network slide, right? So there the distribution network villages activated, that is a flow number or a stock because it has gone down 5,000?

Sudipta Roy:

This is on what, Slide 25?

Abhishek Murarka:

Slide 25, yes.

Sudipta Roy:

Yes, what is the question?

Abhishek Murarka:

Is this a flow number, right? Every quarter the number of villages activated?

Sudipta Roy:

Yes, every quarter, every quarter. See what happens is that we have 2,20,000 villages into which we go and distribute our microfinance products, right. Now some of those villages become inactive in a quarter, so the objective is to go and activate it once again.

So, this number is new villages which are activated, which have been absolutely brand-new villages where previously we were not distributing, or a village where we were distributing prior to that but the fact is had gone become inactive, which we have gone ahead and activated once again.

Abhishek Murarka:

Got it. Yes.

Sudipta Roy:

This is a monthly exercise.

Abhishek Murarka:

Monthly, okay. Got it. Okay. Thank you so much and all the best.

Sudipta Roy:

Thanks.

Moderator:

Thank you. Next question comes from the line of Viral Shah with IIFL Capital. Please go ahead.

Viral Shah:

Yes, hi. Thanks for the opportunity and congrats for the good set of results. I had actually two questions predominantly. One was Sachinn, just a clarification on two points. You mentioned about the liquidity part, initially you had at the beginning of the quarter. So, when I look at the LCR numbers between the two quarters, that shows a decline already of 18 percentage points. So, is it that during the course of the quarter it was high and then towards the end of the quarter it was reduced?

Sachinn Joshi:

That's right, Viral. Because we, as the situation starts improving, we really do not need to keep depending on the conditions. Like just a day back again there has been some increase. So, the ALCO has given the authority to the management committee, which is a subset of ALCO, to take this decision on increase or decrease the liquidity to be kept on the books because ALCO cannot keep taking these decisions on an ongoing basis, they meet once a month.

So, they have been given the authority to actually keep moving in and out if there is a need, if there is an external environment change which necessitates increasing the liquidity, then it is done. And it's basically a very proactively dealt with situation, so the management committee actually meets every week to take care of this.

Viral Shah:

Got it. And second, Sachinn, clarification I wanted was on the cost of funds side. You mentioned that you expect on a full-year basis say around five to seven bps kind of an increase for the full year. When

I look at FY26 numbers, the cost of funds was 7.35% and Q1 we are standing at 7.2%, so does it mean that from Q1 levels the cost of funds will go up by nearly say 20-25 basis points?

Sachinn Joshi:

That is what we have budgeted for, but like if you had asked me the same question before the credit policy, I would have actually added five-ten basis points more because the situation was grim and there was an expectation. See the geopolitical situation is leading to global changes, right?

And if the yields are going to go up internationally, then you have even Indian government, and the regulator will have no choice but to keep increasing the yields just to remain competitive. As things stood just two days back, the yields actually came down again. And you know, last two days again, there have been some challenges again between Iran and US.

So, it has been a very volatile kind of situation. So, we have for the time being been very conservative and assumed that there could be one or two rate increases which may happen. Even if the repo rates don't go up, players like us get impacted negatively or positively depending on how the short-term will really go up or down. So, the short-term yields will go up without even changing the repo rates and we have no choice but to keep borrowing.

That actually leads to increase in the cost, which happened in the previous quarter. Three basis points is the increase that we are showing. I'm sure that the peer group companies who do not have the benefit of PSL may actually have a higher increase. But same thing happens when situation turns favourable. For example, Reserve Bank of India has come up with the FCNR (B) scheme.

And if we are able to mobilize huge amount of funds through that mode, ultimately it will be ‘AAA’ NBFCs like us who will finally benefit, because the money will come to us for incremental credit to be given. So, the situation being very volatile, that's the reason I've said that it could be in the range of 7.35% or 7.4%. But if things really get normalized, then you may see much more favourable number that we may come across in our next couple of quarters.

Viral Shah:

Got it. And just one last question, Sudipta, for you maybe. You have been guiding for the credit cost to structurally decline and for Q4FY27 you have been guiding now for 2% to 2.2% kind of a credit cost and thereafter it will still further decline. So, for FY28 what is the full year kind of cost? Do you think you can deliver? Can it be we can assume less than 2% credit cost?

Sudipta Roy:

See Viral, I am not a soothsayer, so I can't look at --- I can’t. You know, my first port of call is to get it to between 2% to 2.2%. That's my first port of call. Now the fact is that Cyclops has been effective, Cyclops has been delivering. Right? However, you know, we are all travelling through a geopolitical environment, which is volatile. We have certain worries on the monsoon front, though I do believe that those worries are overdone. Right?

However, my first target is to get it to 2% to 2.2%. After that, we’ll see. After that, how far it goes below that is something that the numbers will tell. In fact, the trajectory of our assets will tell around the Q3 or

Q4 of this financial year. If you were to ask me this question around the middle of Q4 of this financial year, I'll be probably able to give you a far more cogent answer. As of now, it's very difficult for me to give you an answer on that.

Viral Shah:

Fair enough, maybe not say the extent of decline, but then would it be fair to think that FY28 could be at least like a 2% to 2.2% number?

Sudipta Roy:

For modelling exercise, yes, you can plug that in, because that is what we are committed to. If you have said that by Q4 we are between 2% to 2.2%, then obviously in FY28, if we have to maintain our good performance, we have to be in that trajectory or lower. Right? For your modelling purpose you can plug that number. But in Q4 please meet me, I will give you a far more nuanced answer at that point in time.

Viral Shah:

Sure, sure, definitely. Thank you so much and all the best.

Sudipta Roy:

Thanks.

Moderator:

Thank you. Next question comes from the line of Shreepal Doshi with Equirus. Please go ahead.

Shreepal Doshi:

Hi sir. Thank you for giving me the opportunity. My question was in continuation with the review of the previous participants wherein, if the cost of fund is likely to go up because of the uncertainties, what is the kind of implication that we see could happen? I understand that, you know, you highlighted the uncertainties around and the volatility around. But then what is it that we are sort of building in terms of the range that it could be in terms of NIM implications?

Sachinn Joshi:

So, Shreepal, Sachinn here. In terms of NIMs implications, you know, we stick to the corridor of 10% to 10.5%, which we have given. There are different moving parts. Every quarter, you will at times find the cost of funds going up or down. The yields now have come to a level where depending on which business we really accelerate, the mix now decides on what is the kind of yield movement that we will see.

There is only one asset book which actually has a variable interest rate where we could pass on if there is an interest rate change which is mortgages. But apart from that there are couple of levers in terms of the fee income, which can also be looked at and as Sudipta was mentioning earlier that we are working on the payment platform.

We should start seeing some, you know, revenue flows although we have not factored in at this point of time, but from the next financial year we are surely going to see some revenue flows coming in. So, there are some moving parts, as the situation comes over, we will try to figure out how to deal with that. But the NIMs, you can stay assured that if you looked at last almost 2.5 years and 3 years, we have been giving the guidance and we have stuck by that.

Shreepal Doshi:

So just a follow up there, so you talked about the loan book mix. We have seen Urban book gaining share in the overall loan book. So where do you see the mix shaping up, while you've been talking about FY27 and then FY28. Where do you see this parameter in terms of the loan book mix shaping up by FY27 end and then FY28 end?

Sachinn Joshi:

So, you know, just since this is a question immediately coming after the post or the earlier one, the Gold loan book is going to be one of the thrust area, Micro-LAP will be another area, Personal loans will be a third area. And if you look at all these three are reasonably high yielding products, and we should be in a position to use these levers.

And, you know, also, as far as the Micro finance, the Rural Business loan book is concerned we already had 99.8% collection efficiency. So, we are not talking about decelerating the growth. We are just talking about in percentage terms just because other books will grow this may go down to some extent. But otherwise, growth over there also will continue. So, that's the reason I said there are levers of ensuring that, the 10% to 10.5% corridor can be met depending on which business we accelerate in a particular course.

Shreepal Doshi:

Got it sir, got it. Thank you so much sir for answering my questions and good luck for the next quarters.

Moderator:

Thank you. Next question comes from the line of Piran Engineer, CLSA. Please go ahead.

Piran Engineer:

Hi, team. Thank you for taking my question and congrats on the quarter. Just a couple of questions. These large digital partners you work with for the Personal loan business, do they also provide FLDG? And if so, how much?

Sachinn Joshi:

No, we don't work on a FLDG model with any one of them. So, it's completely our own credit. So, see at times working on FLDG models means compromising on credit parameters for the sake of volumes.

With the philosophy, we don't do that, right? So, it is only we originate customers at our own credit terms and not at terms of our partners.

Piran Engineer:

Understood.

Sachinn Joshi:

So, we give an origination fee to the partner, nothing else.

Piran Engineer:

Got it. And secondly, sir, did you mention in your opening remarks something about CGFMU?

Sachinn Joshi:

Yes, yes. So, we started taking CGFMU coverage for our Micro Finance portfolio, especially, see, we have not taken it for 100% of our portfolio. So, we have done a sort of risk metrics analysis, and we are taking coverage on a certain section of our portfolio. The portfolio we think that are more prone to, you know, or softer portfolios which we think are prone to economic shocks or has some overhang of an event risk. That is where we are taking this coverage.

Just like we are taking CGFMU, we are taking CGTMSE coverage for our SME business as well. Again, not on the entire SME book. The cohort of the SME book that we think is risky. So, when we underwrite our SME books through Cyclops, it divides the book into three segments, the segments which you call premium, core and value, and they are rank ordered according to their risk.

It is only in the, primarily in the value segment, which is the lowest of the cohort, that we are taking a CGTMSE coverage, because that we consider as a sort of a vulnerable segment as well. So again, our objective of taking the CGFMU coverage as well as the CGTMSE coverage is to provide the optimum amount of protection with the least amount of addition to ongoing opex.

Piran Engineer:

But sorry in MFI, how do you like what sort of -- can you give an example of a cohort, like would it be only borrowers?

Sachinn Joshi:

It is difficult to give an example of a cohort but let me give you an example. You know. See, because each and every state has its own flavour, but there might be you know one particular you know state which is more prone to floods, right. Now there are two options. You can take CGFMU coverage, or you can take parametric insurance.

All new customers for example -- any new customer who is coming all new to credit customer. You have not seen their credit before. They are completely zero cycle.? So those are the customer you would like to take CGFMU coverage. Now once those customers go through three years and have done one or two cycles with you, are good enough, you know their coverage, you are happy to let go of the CGFMU coverage because you know that this customer is credit seasoned, right?

Also, we are moving around in certain -- expanding our business in new geographies like Rajasthan, Punjab, Haryana, MP, Gujarat, Maharashtra, Odisha. These are the locations where we are taking CGFMU coverage, because many of the customers that we are acquiring in these locations are first time customers for us.

Sachinn Joshi:

Just to add, since we are taking it for the first time, in this year itself, we will cover about 35% to 40% of the total disbursement that we make in the current year for Micro Finance.

Piran Engineer:

Yes, micro finance. Okay, yes. This is pretty useful. Thank you. Wish you all the best.

Sudipta Roy:

Thank you so much.

Moderator:

Thank you. Ladies and gentlemen, due to time constraint, we have reached the end of question-and-answer session. I now hand the conference over to Mr. Sudipta Roy for closing comments.

Sudipta Roy:

Thank you so much for joining the call and thank you for your feedback and participation. I trust we have been able to address all your queries. However, I think that such a short time frame is probably at times inadequate to address all the queries, so our Investor Relations team is always available to answer any queries and myself and my management team are always available to meet you one-on-one or in groups to answer any additional queries that you might have. Thank you for your participation and attendance and with this I would like to close the earnings call for Q1FY27. Thank you so much and have a nice day.

Moderator:

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

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