

October 26, 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 – Q2FY2026-27 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 Q2FY2026-27 financial performance and strategy update held on October 16, 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: 2026.10.26
19:00:29 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance Limited
Q2 FY27 Earnings Call Transcript
October 16, 2026

Management Personnel:

Mr. Sudipta Roy (Managing Director & Chief Executive Officer)
Mr. Sachinn Joshi (Whole-time Director & Chief Financial Officer)
Mr. Raju Dodti (Whole-time Director & Chief Operating Officer)
Mr. Karthik Narayanan (Head – Investor Relations)

Moderator:

Ladies and gentlemen, good day and welcome to the L&T Finance Ltd. Q2FY27 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 call concludes. Should you need assistance during the call, please signal the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

We have with us today Mr. Sudipta Roy – Managing Director & CEO, Mr. Sachin Joshi – Whole-Time Director & CFO and Mr. Raju Dodti – Whole-Time Director 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 Before we proceed, as a standard disclaimer, no unpublished price sensitive information will be shared during the call.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 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 While all efforts would be made to ensure that no unpublished price sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call.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 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:

A very good morning, everyone, and thank you for joining us today for the Q2FY27 Investor Call.

Joining me on the call today are our Whole - Time Director and Chief Financial Officer, Mr. Sachinn Joshi, our Whole - Time Director and Chief Operating Officer, Mr. Raju Dodti, along with other members of the senior management team of L&T Finance. On behalf of the entire L&T Finance team, I would like to extend our festive wishes to you and your families and the broader investor community.

Similar to our previous earnings 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. Subsequently our COO, Mr. Raju Dodti will update you on our distribution initiatives and the build out of the gold loan business. Finally, 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'll be happy to take questions on the call

Macro-economic outlook

Before we delve into the highlights of the quarter, I would like to share our perspective on the macroeconomic environment, particularly the volatility in the geopolitical arena and the impact of monsoon and El Nino on the rural economy, which remains an important consideration for the financial services industry in the current operating environment.

Global economy continues to be in a state of flux with re-escalation of the conflict in West Asia and sharp volatility in crude oil prices. At the same time, strong economic growth data combined with inflation pressures have reinforced expectations of higher-for-longer policy rates.

While these uncertainties warrant close monitoring, India's domestic demand fundamentals and the underlying drivers of consumption continue to remain resilient. Input cost pressures have accentuated, but the pass-through has remained limited so far. Real GDP recorded a growth of 7.8% in Q1FY27, reflecting strong demand conditions on back of robust private consumption, investment and exports demand. Upgrades in India's GDP growth expectations for the full year FY27 by RBI, World Bank, OECD etc underscore the strength of economic activity despite significant headwinds. Despite intermittent volatility in domestic financial markets, credit demand also continues to grow at robust pace.

On the rural front, the progress of the southwest monsoon has remained an area of close attention for the entire financial services industry. As you would be aware, the 2026 Southwest monsoon concluded with cumulative rainfall at approximately 87% of the Long Period Average, with considerable regional variations. While rainfall improved during July, the deficit in the early part of the season and below-normal rainfall in several regions have implications for agricultural output, water availability and rural cash flows. However, rainfall spells during the month of August have substantially improved the expectation of a near normal kharif outcome.

Inspite of the below average monsoon, Kharif crop sowing is at par with previous years, reporting a marginal 1.0% YoY contraction with total coverage at 101% of the normal acreage. In most regions, irrigation buffer and stable reservoirs have helped mitigate rainfall shortfalls. While localised drop in crop yields and moderation in rural sentiments remain a latent risk, rural consumption continues to be strong currently, driven by resilient non-farm activities, robust govt DBT transfers and favourable terms of trade for agricultural prices. We are therefore maintaining a close watch on the operating environment across our rural markets, with particular attention to geographies where rainfall deficits and water availability could exert greater pressure on borrower cash flows. Sustained momentum in services, and broadly stable employment conditions are supporting urban demand as well.

Despite cost pressures, manufacturing activities are holding well, as indicated by IIP and PMI figures and services sector activity remains steady and broad-based, owing to buoyant domestic and external demand. Economic momentum thus remains broad based and is expected to sustain strong demand through the current fiscal year.

Q2FY27 Highlights

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

During Q2FY27, we recorded our highest-ever consolidated profit after tax of ₹975 Cr, representing a growth of 33% YoY, against ₹902 Cr in Q1FY27. Our consolidated book stands at ₹1,36,635 Cr, reflecting a YoY growth of 28%, against ₹1,29,634 Cr in Q1FY27, with an RoA of 2.60% against 2.48% in the previous quarter. This has been achieved on the back of quarterly Retail disbursements of ₹24,027 Cr, up 27% YoY, with contributions from all our lines of business.

The disbursement momentum has been a result of our strong customer acquisition funnel, with a ~3 crores customer database and our continued focus on granular distribution channels, branch footprint, digital acquisition capabilities, and our AI-powered credit administration framework, Project Cyclops, backed by strengthened risk guardrails. However, we consciously chose to attenuate our Rural disbursement momentum and raised risk guardrails in view of the uncertain progression of the monsoons. Now that we have reasonable clarity on the monsoon outcome, we will carefully increase our risk-calibrated rural disbursement momentum.

You will remember that over the course of the last few calls, I have been emphasizing upon our trajectory of paring down credit cost on account of implementation of structural credit policy measures in our businesses and the implementation of Project Cyclops in various businesses. I am pleased to inform you that consequently, credit cost has moderated to 2.46% this quarter, reflecting a further sequential improvement of 8 bps from 2.54% in Q1FY27, supported by collections excellence and AI-led portfolio management. We would like to reiterate that we are confident of achieving our guided credit cost corridor of 2%-2.2% by Q4FY27. Our NIMs + Fees, which is another focus area for us, stood stable at 10.48% against 10.47% in Q1FY27, well within our guided corridor of 10% to 10.5%. This was possible due to reduction in weighted average cost of borrowing achieved successfully through implementation of astute liability management. Opex remained range-bound at 4.08% during the quarter despite continued investments in branch-rollouts as well as technology investments. All of this has resulted in an improvement in our RoA to 2.60%, with RoE consequentially increasing to 13.56%. We remain hopeful that our RoA trajectory will achieve our guided objective of 2.8% - 3% exit Q4FY27.

Before I move on to our progress on Lakshya 2031, I would like to take a few minutes to address a topic that many of you would have been tracking, and that is the consultation paper issued by Insurance Regulatory and Development Authority of India (IRDAI) on insurance distribution and commission structures.

As the framework is still a draft consultation paper, it would be premature to quantify the final impact. The paper proposes to rationalise the commission payouts across the board with significant cuts in credit-linked insurance and motor insurance. There is also a significant attenuation in the thresholds of commission payouts on standalone insurance products however, to a lesser extent. We understand that the regulators suggestion on the consultation paper are from a viewpoint of making insurance more affordable for the common man in line with the Government of India's 'Insurance for All' as a part of the Viksit Bharat 2047 plan. We believe that there is significant scope for consultation with the regulator on creating an economic rationale for the BFSI entities to continue supporting the insurance industry through their distribution channels. It is to be noted that out of all the Credit Life insurance policies sold in the country, approximately 90%-95% are sold by Banks & NBFCs distribution channels. This touches 65-85 Mn lives (source: Nomura Report estimates Jan'2026) in the country annually and accounts for ~35% of all Insurance policies issued in India. As an industry, our SRO FIDC is working with all member NBFCs to kickstart an engagement with the regulator, possibly in collaboration with other financial industry SROs. The salient points of discussion would be a realistic assessment of the distribution costs incurred by the BFSI industry to support distribution of insurance products on behalf of the insurance manufacturer. We would also request the regulator for a glide path for commission optimisation to distributors in line with

the glide path proposed for the manufacturers in the treatment of expense of management (EoM). As an industry we would pursue all possible channels of dialogue to ensure that the final outcome is balanced and positive for all stakeholders - consumers, distributors, and manufacturers of insurance.

As an organisation we will look at all possible means of revenue optimisation, including new initiatives like cross-sell as well as the Payments business focusing on value adding agentic commerce. In summary, we expect L&T Finance to navigate the IRDAI consultation paper related impact with minimal disruption to our Lakshya 2031 goals.

We will also like to apprise you about two very important initiatives that we have started in Q2FY27, which we expect to gather pace over the next couple of quarters.

The first is Project Hercules - our increased focus on reducing cost of customer acquisition through focused cross-sell initiatives to our existing customer base leveraging our extensive Agentic AI expertise. You may be aware that L&T Finance has one of the largest customer bases in the NBFC industry at 3 crore customers and an equally large number of prospects who have applied for products from the company at some point in time and were found to be not eligible at that instance. The fact that our Rural Group Loans and MFI customers, Tractor customers and Two-Wheeler customers have borrowed more than 50,000 Cr worth of gold loans prompted our entry into the gold loan business. To effectively tap into the demand of this large base of customers, an integrated agentic AI-based cross-sell engine called Hercules is being built and implemented in phases. Q2FY27 saw the implementation of phase 1 of the Hercules cross-sell engine across a few important lines of business with promising initial results. For example, the conversion of gold loan cross-sell leads generated by other businesses is running at 14%+ as of the first week of October'26. The full complement of Hercules with the agentic AI workflows will be implemented by early December'26 and will be showcased to the investors during L&T Finance Investor Digital Day on 15th December'26. We expect the momentum of cross-sell volume build up to improve further in Q4FY27 and add to our low acquisition cost disbursement build-up in FY28.

The second major initiative is our Payments platform which is being rapidly built to provide an agentic commerce experience to our customers and will also be a driver for increased new customer acquisition velocity. Our UPI stack is live and currently undergoing closed user group testing. We are implementing the agentic commerce payments stack in partnership with Pine Labs and we will unveil this effort at RAISE 2026. We have also applied for a Prepaid Issuer license, and we expect to bring a host of AI enabled prepaid payment products in FY28, subject to the receipt of the PPI license from RBI.

I would now like to share an update on our Lakshya 2031 goals, which marks our leap from 'Transformation' to '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 five-year journey and therefore, our endeavour remains

focused on delivering sustainable growth while steadily improving credit costs, profitability and returns over the course of the strategic plan.

- **Book growth** - We had set ourselves a book growth CAGR of 20%+ over the Lakshya period, against which we have achieved a robust 28% growth in Q2FY27, supported by disbursement momentum across both secured and unsecured products: 72% YoY in Personal Loans, 24% YoY in Two-Wheeler Finance, 22% YoY in Rural Business Finance, 20% YoY in Mortgage Loans, 27% YoY in SME Finance and 9% YoY in Farmer Finance
- Second, on the **Credit Cost** front, we continue to drive credit costs down to a level of 2% or less over the Lakshya period. In Q2FY27 our credit cost stood at 2.46%. Our participation in the Central Government's credit guarantee schemes, CGFMU and CGTMSE, continues to create an incremental safety net for select cohorts of our Rural Business Finance and SME Finance portfolios as outlined in slide no. 36 of our investor presentation. The continued moderation in credit costs and improving asset quality during the quarter provide us confidence that these structural interventions are delivering the intended outcomes.
- Our **Return on Assets (RoA)** target remains in the range of 3.0%–3.2% for FY31. Against that, we recorded an RoA of 2.60% in Q2FY27, vs. 2.41% (after utilisation of macro prudential provisions) in the corresponding quarter in FY26, up 19 bps YoY. We remain committed to work on achieving the 2.8%-3.0% RoA corridor threshold in Q4FY27 as communicated earlier.
- On **Return on Equity (RoE)** front against a Lakshya'31 target in the range of 16-18% by FY31, RoE increased to 13.56% in Q2FY27 from 11.31% (RoE after macro prudential provisions) in Q2FY26, up by 223bps.

In my last call, I outlined our three key strategic objectives for FY27: Driving Cross-sell and Up-sell, Enhancing Productivity and Embedding a strong Tech-DNA across the organization. We continue to drive the key outcomes defined by these pillars, as they remain critical to achieving our short and long-term business targets while building sustainable capabilities for future growth.

While I have already spoken in detail about our cross-sell engine, Project Hercules, I want to highlight the momentum we are seeing in our other initiatives. Our second objective—driving organizational productivity—has gathered speed. We are actively enhancing productivity across all business lines, with a primary focus on empowering our frontline employees through customized performance dashboards.

Thirdly, in line with our strategic objectives of embedding AI-empowered tools across the organization, we have made significant efforts to inculcate a "Tech DNA" throughout our workforce. As part of our initiative to upgrade the Tech DNA, LTF launched the "AI Citizen" program, equipping 1,200+ employees with the Gemini Enterprise Agent Platform and a continuous learning ecosystem with dedicated training sessions by industry experts. The goal here is to build custom agents that exponentially boost operational productivity. Following exclusive training, this initiative is rapidly expanding enterprise-wide to build a robust network of AI Champions, ensuring that AI is not just a central technology function, but a democratized tool actively used by our employees. It is worth

mentioning that in a short span of this project going live, ~5,730 agents working on regular business tasks have already been created by our employees.

These strategic objectives are central to our structural evolution into a 'Risk-First, Tech-First' AI-native multi-product retail financier of choice.

I will now request Mr. Raju Dodti, our Whole-Time Director and Chief Operating Officer, to take you through an update on the expansion of our Gold Loan business and branch infrastructure roll out execution.

Raju Dodti:

Thank You, Sudipta. I will walk you through the Gold Loan business performance and our Branch expansion strategy of the company for the quarter.

Central to our distribution strategy is the transformation of our legacy physical network to a multi-product sales and service ready network. This approach moves our focus from transactional lending to a holistic relationship management, enhancing customer lifetime value by positioning every branch as a gateway to our full suite of financial solutions. Specifically, as we have shared in previous quarters, we have commenced with the integration of our Gold Finance branches into the multi-product 'Sampoorna' branch format. Since inaugurating our first Sampoorna branch in Ujjain, we have accelerated our model shift from single-product touchpoints to integrated service hubs. This also ties in with our overarching cross-sell goal wherein Hercules supports both the Sampoorna initiative as well as the digital fulfilment of our cross-sell funnel.

I am pleased to share our current progress on this front: we have successfully scaled our network to a total of 151 Sampoorna branches across the country in a short timeline of ~18 months since this concept was launched in FY25. This comprehensive ecosystem currently includes 33 Sampoorna branches integrated with Gold Loan business as well. This rapid rollout keeps us firmly on track with our broader expansion goals and our ongoing commitment to scaling our integrated physical presence.

I am happy to share our good progress in building our Gold Loan business. We registered a robust quarterly disbursement of ₹3,237 Cr, representing a 229% YoY growth, with our closing book reaching ₹5,043 Cr, up 242% YoY. This performance is driven by our rapid branch expansion—having launched 172 new branches in H1FY27 to reach 502 active branches, with ~110 branches already crossing ₹15 Cr in AUM, as of September 30th, 2026.

To create granular awareness and to support the growth in our business volumes, we launched an integrated Gold Loan campaign featuring our Brand Ambassador Jasprit Bumrah. Additionally, our organic brand integration with TVF's 'Family Kirana Store Season 2' was a success, crossing 15 million views. Furthermore, as the co-presenting Sponsor for India vs. Sri Lanka Test series on Sony TEN, we secured a 34 million reach. We believe that these outreach programmes while creating brand equity will help us boost business volumes and propel the growth of this business line.

I will now request Mr. Sachinn Joshi, Whole - Time Director and CFO, to take you through the financial updates.

Sachinn Joshi:

Thank You, Raju. 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 10.48% vs 10.22% for Q2FY26
- Consol PAT for the quarter at ₹975 Cr, up 33% YoY
- Quarterly Retail disbursements stood at ₹24,027 Cr, up by 27% YoY
- Retail book stands at ₹1,34,600 Cr, up 29% YoY. Our Consol book stands at ₹1,36,635 Cr, up 28% YoY
- Consol RoA stands at 2.60%, up 19 bps YoY
- Consol RoE at 13.56%, up by 223 bps YoY

Retail Businesses:

Rural Business Finance

The business registered quarterly disbursements of ₹6,356 Cr, up by 1% YoY, mainly on account of improved collection efficiency and sectoral trends. The book size reached ₹33,465 Cr, up by 22% YoY in Q2FY27.

Farmer Finance

In the Farmer Finance vertical, quarterly disbursements stood at ₹1,643 Cr in Q2FY27, down by 1% YoY. The book size reached ₹17,397 Cr, reflecting a growth rate of 9% YoY.

As Sudipta mentioned earlier, we consciously maintained a calibrated disbursement momentum in our Rural businesses during the quarter and raised risk guardrails, keeping the impact of the macroeconomic factors in mind. The coverage of select customer cohorts with CGFMU insurance cover and parametric insurance will enable us in de-risking the rural portfolio. We will continue to closely monitor the developments in this space and are carefully increasing our risk-calibrated rural disbursement momentum in Q3FY27.

Urban Finance

The segment, which comprises Two-Wheelers, Personal Loans and Mortgage Loans (Home Loans & Loan Against Property) businesses, saw a 27% YoY jump in overall quarterly disbursements to ₹10,328 Cr. As a result, the overall Urban Finance book size increased to ₹67,668 Cr in Q2FY27, translating into a 32% YoY growth.

- **Two - Wheelers:** The business registered quarterly disbursements of ₹3,170 Cr in the quarter, up by 26% YoY. The book size increased to ₹16,158 Cr, up 24% YoY. With 92% of TW

disbursements in the prime segment in Q2FY27, 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 ₹4,233 Cr, translating into a stellar growth of 45% YoY, with the book size at ₹18,664 Cr, an increase of 72% YoY. During the quarter, we operationalised our Personal Loan originations with Airtel. Overall large partnerships constitute 40% of our Personal Loan originations.
- **HL / LAP:** In the Mortgage Loans business, we achieved quarterly disbursements of ₹2,926 Cr, up by 8% YoY. The book size reached ₹32,846 Cr, an increase of 20% YoY. During this quarter we launched Aarambh Loans, L&T Finance's offering for the economical housing segment in non-metro and peripheral urban geographies with ticket sizes ranging between ₹20-50 lakhs.

SME Finance

In the SME business, quarterly disbursements stood at ₹1,820 Cr, up by 24% YoY. The book stood at ₹495 Cr, up 27% YoY. The growth in business volumes was aided through an increase in direct sourcing and an existing strong network of distribution channels. As Sudipta mentioned earlier, we have covered ~80% of the portfolio through an insurance cover with CGTSME which puts us in a good position to focus on risk-calibrated growth going forward.

Gold Finance

As Raju mentioned earlier, in the Gold Loan business, quarterly disbursements stood at ₹3,237 Cr, up by 229% YoY. The closing book reached ₹5,043 Cr at the end of the quarter, representing a significant growth of 242% YoY

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

Sudipta Roy:

Thank you Sachinn.

In summary, this has been a great quarter for L&T Finance, with superior performance across key performance parameters, marked by record disbursements, superior portfolio quality and highest-ever Profit After Tax. These outcomes reflect the strength of our business franchise, the resilience of our operating model and our continued focus on delivering sustainable, risk-calibrated growth. A key enabler of this journey is our continued investment in technology and artificial intelligence. We believe that the investments we are making today will not only strengthen our credit and risk management capabilities but also create a more agile and future-ready organisation.

I am particularly proud of how our teams have delivered during the quarter despite the uncertainties in the macroeconomic environment. We recognise that the operating environment will not be without challenges and that there may be air pockets along the way, particularly across certain customer segments and geographies. However, our confidence stems from the strength of our franchise, the

discipline of our underwriting approach, our granular distribution model and the investments we are making in technology and people. We will remain vigilant, respond to emerging risks with agility and continue to pursue opportunities for responsible growth. I am confident that these capabilities will help us navigate near-term uncertainties while keeping us firmly on course towards our long-term strategic ambitions.

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. We take the first question from the line of Shreya Shivani from Nomura.

Shreya Shivani:

I have 2 questions. First is on the NIMs or cost of fund trajectory. While this quarter has been good, if you can help us understand how are we going to manage the repo rate hike that has come through? How much change will we make in our floating home loan book right away? Or maybe any colour around maybe we'll change the pricing after 1 month, 2 months or strategy on fixed asset book, all of those.

The second question is on the underwriting strategy that you've spoken about that you're recalibrating it. So there are droughts in a couple of states. So if you can throw some colour on how you're going to manage the rural segment underwriting quality, whether it be state by state, what all changes you're making? And also similar comment on the LAP segment because the LAP has been slightly weaker as well, though it's a part of the urban segment. So any colour on the LAP segment as well would be useful.

Sachinn Joshi:

Thank you. This is Sachinn here. Let me address your first question on NIMs and cost of funds trajectory. Yes, this quarter, as you mentioned, we have actually given a very good result in terms of 25 bps reduction in the overall weighted average cost. Part of this was on account of getting our strategy right the liquidity in the system was pretty decent in the months of July, August when the interest rates were also quite lower.

We have actually used this to our advantage by changing to some extent the mix as well as giving up on some high-cost borrowings and incremental borrowings also were mobilized at lower rates. We took advantage of our specific benefit, which we achieve out of our PSL-based borrowings.

We also did some PTC transactions during the quarter. We increased our commercial paper overall funding. We went in more for 6 months to 1 year of CPs. And finally, even the market borrowing were done, keeping in mind the medium to long-term requirement. This has actually placed us in an advantageous position because we would have at least taken care of next 3 to 4 quarters. So yes, the interest rates will continue to keep increasing. We believe that this was just the first repo rate hike. More would follow. At max, we may have 2 more coming up in December and Feb. Max 2 to 3 is what is expected, which would naturally lead to increased overall rates, the yields have already started firming up. But the base has been brought down to 6.95% and any increases will keep us in that advantageous

position. So, the increases would be there, but we will be less impacted and we would be in a position to continue to have NIMs plus fee trajectory in the range of 10% to 10.5%. Last 2 quarters, we have been at 10.47% and 10.48%. I think next couple of quarters also, we will be somewhere around mid of this 10% to 10.5% trajectory is what we believe.

Shreya Shivani:

Right. And are you repricing any of your assets, right? Any colour on that?

Sachinn Joshi:

So as far as repricing is concerned, only our Mortgages, the Home Loan book is one which is variable in nature, which is about ₹25,000 Cr odd. Yes, there will be -- we will wait for the market to react to the repo rate increases. And yes, over a period of time, we'll do that. I think our overall mix in terms of fixed and variable, we have matched both on the asset and liability side, so not really majorly worried on that. In fact, this will only give us an advantage by repricing our Home Loans book. Now that interest rates are increasing, yes, we will surely over a period of time, take advantage of that.

Sudipta Roy:

Yes. So on your second question, especially on the underwriting strategy, obviously, if you see the progress of the monsoon, the progress of the monsoon has been actually varied. The northern and the northeastern part of the country has received reasonably okay rainfall. If you look at the central part of the country, the rainfall is a little below average, but it is not really alarming.

It is -- some parts of especially in Karnataka as well as in Maharashtra, some of the districts, some parts in AP, Telangana, especially the southern part of the country has received a patchy rainfall, below average rainfall. And obviously, the governments of these particular states have declared certain districts as being affected by drought.

So, we have been cognizant of this early on. And in our underwriting parameters, some of the guardrails have been strengthened in all these districts and the rural disbursements, whether it be tractors, etc. have already been tempered in this particular district. One of the important things that we noticed is that the customer demand also was sort of relatively muted. So, it's not that the customers also came and demanded loans and we denied them. In view of the postponed rainfall, we found that the customer demand is also muted. You have to keep in mind that majority of the industry just has recovered from an asset quality cycle, right, especially the microfinance industry.

And so, the period post the asset quality cycle is typically a very benign credit period. And in Micro finance too, guardrails have been rigidly implemented by most of the lenders and actually all the lenders, right. And the fact is that people are adhering to that. So there literally has been no risk buildup, especially visible risk buildup during this intervening period in rural and people have been careful. So, we are also being careful, and that is why you saw a near flattish Q-o-Q performance on our rural disbursements. However, you will see a little upward bias in our rural disbursement in Q3, which is primarily the festive quarter.

You will see some upward bias in that because we -- knowing the progress of the monsoon and the outcome of the kharif crop will be very clear towards the last weeks of October, first week of November, we expect rural cash flows to improve after kharif crop comes, right. So we are growing this business in the rural areas in a risk calibrated way, and we are very, very certain that there is -- at least as of now, there is no pocket in which we really think there is risk buildup.

The other thing, what we are doing is we have subscribed to the CGFMU program as well as we have taken parametric insurance, just to make sure that we have additional bulwarks available against any unforeseen eventualities. On the other hand, also in our rural businesses, we are also taking our secured Micro LAP business up because that is -- also that has been performing very well, almost 99.9% collection efficiency. So it's been working very well.

I would like to point out that our collection efficiencies in Rural Business Finance remain in the corridor of 99.7% to 99.8%, which is in line with the best ever collection efficiency that we have ever seen. Month-on-month, month-on-month, the collection efficiencies are sort of on the ball. In the month of October, we are seeing very good progress in the first 15 days.

So, what I would like to sort of talk about the notion that as of now, there is no visible emanating immediate risk pocket that we see in some of the rural geographies. We are being careful, and we are doing calibrated disbursements, but I do not foresee any sort of risk accentuation in the coming quarters, right? I think it will be managed very, very well.

The second thing you asked on LAP. LAP, at least for us, continues to perform very well. There is one particular slide in our analyst deck where we have given some of the, sort of, data on performance of our business vis-à-vis, it is in slide 31 of our analyst deck, which you will see that LTF's index representation of delinquency is 10% of industry delinquency.

So, for us, LAP remains our least concern. And the fact is that in LAP also we're implementing our AI-based sort of underwriting tool Helios, both in LAP and mortgage, we are implementing, so which will give us our underwriters a far greater capability to sort of underwrite LAP very, very well. So overall, things are normal. Yes, we understand that there are climatic issues. There are geopolitical disturbances. But as far as L&T Finance's business is concerned, I think we are in ship shape.

Shreya Shivani:

Right, sir. And just one follow-up. The Karnataka, Maharashtra, South, all those states you mentioned which have a drought issue, how much of your rural mix would they make up? I mean any rough ballpark number would be useful over there?

Sudipta Roy:

I don't -- see, Maharashtra is very small for us. Maharashtra, we do not have a very large microfinance presence, neither do we have an extremely large tractor presence. So Maharashtra is not actually really very large for us. Karnataka, we have a reasonable microfinance business, but we probably can give you that number. So we can give you that number, percentage number offline, we can give that to you. Our Investor Relations team will give that number to you offline.

Moderator:

We take the next question from the line of Kunal Shah from Citigroup.

Kunal Shah:

So, a couple of questions. Sir in terms of this entire cost of borrowing, 25 basis points, if I look at the mix, in fact, PSL is still coming down sequentially from 26% to 23% odd. And CPs is something which is going up from 5% to 8%. So is it more of CPs rather than like maybe you have mentioned like we are leveraging the rural franchise. So that should have actually got reflected in terms of the PSL or not really?

Sachinn Joshi:

Kunal, Sachinn here. Yes, in percentage terms, the PSL has come down. But like I mentioned, CPs have increased. But across all the products, for example, we also have working capital demand loans. So the demand loans keep expiring and the new ones have come in at a cheaper rate. That was one.

The PTC transactions that we did, which is part of the other, that also has gone up to about 5% odd. That also has come in pretty cheap. That's, I would say, the cheapest source of money today for me. So even markets borrowing, see, it all depends on what was the timing of raising these resources.

When the FCNR(B) deposits were coming in, we had seen perhaps the yields bottoming out. And we actually timed our raises appropriately, not just short term, but medium to long term as well and which will actually keep us safe at least for next 3 to 4 quarters. Even the CPs, usually, we would go for a 45-day to 60-day or 90-day. We have actually gone for 6 months to 1 year.

So, we try to ensure that next 3 to 4 quarters, we are in safe zone as far as the short-term money that we have raised. But all other medium to long term in the range of 3 to 4, 4.5 years also has been raised. And we also had raised some sub debt during the period. So if we had done the same thing in Q3, maybe the rates would have been completely different.

So, all in all, I think the timing matters. there was anyways an expectation that the repo rate hike will begin. And we were able to take advantage of the FCNR(B) mobilizations, which were happening, which took the liquidity to over ₹5 trillion and which gave us that advantage.

Kunal Shah:

Sure. So now in terms of the optimization levers, largely we have used most of them. And just assuming that rates remain where it is, no doubt there would be a hike. But just assuming then we expect that 6.95% can still be sustained. There is no one-off. It will not go up to again 7.1%, 7.2% over the next 2, 3 quarters.

Sachinn Joshi:

See, for a couple of quarters, it will naturally not remain at 6.95%. If that's the case, then I have to assume that there will be no growth which will lead to further borrowings. Whatever incremental borrowings I do in this quarter, naturally, the -- even the CPs that I raised in this quarter will be higher, right? So -- but because the base has come down to under 7%, which has happened for the first time

in LTF history, yes, we are in an advantageous position vis-a-vis the market. So, the base being lower, naturally, whatever increase is only going to be on that incremental borrowing. And as I mentioned, we have also taken to some extent, the care of medium to long-term requirements. So, it's going to be only that incremental borrowing that will lead to that increase.

Kunal Shah:

And that is at what rate average?

Sachinn Joshi:

Which one?

Kunal Shah:

Incremental. Average incremental borrowing now.

Sachinn Joshi:

No, I will -- see, it has -- the yields have gone up anywhere between 30 to 50 basis points. So, depending on -- there are some commitments which are still in the pipeline. The sanctions have already been in place, and we have to just go ahead and execute them. But the yields, initial increase that we have seen and the markets have been choppy. So, we have to decide on when we exactly go and hit. One thing which we have tried to do is we have tried to ensure that we don't get into any desperate situation that we have to borrow at very, very high rates. So, if you plan very well, we are able to get further incremental borrowings at decent rates.

We have enough room to raise further short term, like I mentioned in my earlier calls also, our ALM permits us to go right up to 14%-15% because even the gold loan business, you saw the growth this quarter was ₹3,000 Cr, and they are all 1-year products. So incrementally going further up on the CP front is actually very easily permitted. There is enough room for me to play. And the short term, the resources that I raised will anyway come cheaper than the medium to long-term that I will have to raise. So I will -- I'm in a very good position to time the market.

Kunal Shah:

Got it. And a couple of more questions. On overall overhead cost, how much would be more of an infra in the collection cost? Is it like the collection intensity would have gone up and that is leading to the higher opex because that has grown and opex to asset is also up? And what would be our outlook on that?

And the second question is, we have seen collection efficiency softened a bit across most of the segments when you look at it like Two-wheeler, tractor, MFI as well. So, anything to worry on that front? Is it more of a -- maybe it doesn't appear to be seasonal because second quarter, we still see some kind of stability out there. This time, there is a decline, so be it in terms of Two-wheelers and tractors as well. So how should we look at that? And any risk to the credit cost?

Sachinn Joshi:

Okay. So let me first address the initial question on opex. The collection costs have been only going down, primarily because the more the Cyclops underwritten book is coming into play, the roll forwards have been coming down. Very clearly, this is actually putting us in an advantageous position.

Number two, the bots that are coming into play in terms of collections, I think that also is helping us in terms of bringing down the cost. The operating expenses that you see, the range, is a mix of business as usual as well as the investments that we are making in setting up branches.

We -- like Raju had mentioned on the call that 172 branches have been set up in the first half. Similarly, we are also rolling out branches for Rural LAP business and setting up meeting centers. In addition to this, the technology work continues because we have been going ahead with the rolling out of Cyclops over all the products, plus Nostradamus also is being implemented.

So, all in all, the investments being made actually are getting taken care of through the savings which are coming up on account of the efficiencies which are building up. So, we really don't see any major movement of this opex to book in the near term. We will continue to ensure that our branch rollout will continue. We want to set up 500 branches for Gold. We want to set up 200 branches for Micro LAP. So, rest of the branches will get rolled out pretty quickly.

And as the last year, whatever branches were rolled out, the top line is getting beefed up with the branches getting into the breakeven zone. So yes, this will continue for at least a couple of more years.

Sudipta Roy:

Yes. So, Kunal, Sudipta here. So, I'd like to add a couple of things. First and foremost thing, our collection efficiency in our Rural Business Finance vertical is rock solid. It's 99.8%, 99.7%. One basis point here and there in our large portfolio will happen. So, the second thing is that in the Farm Equipment Finance also, if you see typically, May, June, etc, which is the fag end of the rabi crop, there's a lot of liquidity that comes into the market. And then that gives it a jump in collection efficiency, which goes through a little bit of norming during Q2 and again comes up as the kharif crop comes in.

So, you shouldn't read too much into it, right, because -- and if you look at compared to last year, we are ahead of last year and by 90 bps. So actually, the tractor business is doing very well. With respect to -- we have got offline questions on -- after we published our analyst deck on why did the Two Wheeler collection efficiency dropped in the month of September?

And I want to frame this because there might be further questions on this on the call. For -- in the month of September, we tried to do a little bit of aggressive experimentation on our AI-based collection curing, right. When we -- actually -- because now I know our self-cure is almost close to 43% in the Two Wheeler business. So, we wanted to check whether we can push the self-cure to 50%-55%. There was an aggressive attempt.

Now obviously, we realized that beyond a point, probably the marginal utility of AI processes has flattened out. It is also a learning for us, right. So that's exactly what happened, especially in the 0 DPD collection efficiency in the month of September. It is born out of an experiment and it is nothing structural. In fact, we are back to similar collection efficiencies exactly in the month of October. We will

end the month of October with a 99% collection efficiency, probably a little better than 99% collection efficiency in the month of October.

So, it is nothing structural. It is not a sign of worsening credit quality. It's just a simple experiment that probably did not deliver the intended results. So, I would like to leave it at that. So, I would like to reiterate that the credit quality of all our lines of business remains strong. The credit quality, the credit outlook of all our businesses remains strong. We -- as of now, every business is showing improving credit metrics as we move from quarter-to-quarter, and we are very confident of hitting that 2% to 2.2% corridor of credit cost as promised in Q4FY27.

Sachinn Joshi:

Just to add, there was earlier a question also on the impact on collection efficiency on account of lack of rainfall and all. Kunal, again, this pertains to the collection efficiency, so I'm just responding. The drought declared areas, we have tried to see what the pin codes that have got impacted. We have a ₹31,500 Cr Rural Group Loans and Business Loans book. The drought declared areas, especially in Karnataka and Maharashtra, about ₹1,033 Cr is the total book relating to this, which is 3.3% of the total book. So really no impact on account of -- that's the reason why we don't see any major impact coming out of it.

Moderator:

We take the next question from the line of Abhijit Tibrewal from Motilal Oswal Financial Services Limited. Abhijit, please unmute your line and proceed with your questions.

Abhijit Tibrewal:

Sachinn, sir, first question for you, I think you have deliberated and explained to us at length on what helped us reduce our cost of borrowings, the portfolio cost of borrowings by 25 bps. But I think one thing I didn't understand is you said that going forward, it is only the incremental cost of borrowings and like you mentioned, these are up anywhere around 30-40 basis points, which will maybe lead to the trajectory of cost of borrowings going up.

But even this quarter, despite FCNR, I mean, with such a large balance sheet, I mean, only the incremental borrowings that we do and even if they come at lower cost, how will they reduce the overall portfolio cost of borrowings by 25 basis points? Unless, of course, even the existing lines that you have with your banks get repriced.

Sachinn Joshi:

Yes. So, as I mentioned earlier, there are lines. When you look at the bank borrowings, you have 2 types of bank borrowings. One is the PSL and one is non-PSL. The non-PSL borrowings also includes lines of credit and against which we take working capital demand loans.

These are of shorter tenures. And when they come up for repricing, you have a choice of either drawing it down or you have a choice of not drawing it down. So last quarter, if you recall, we had drawn down

about ₹4,000 Cr additional in terms of incremental liquidity which we had created, on account of which the interest cost overall has gone up.

And those naturally could be immediately paid off. So, our overall liquidity has come down. Average liquidity has come down to ₹9,500 Cr to ₹10,000 Cr in this quarter. So whatever money went back, that money was naturally high priced and that money got replaced. So, we got an opportunity to replace high-cost borrowings with lower cost borrowings. In addition to whatever I spoke on the CPs and raising money through PTCs. I hope I've addressed the question. Thank you.

Abhijit Tibrewal:

Yes, sir. Yes, sir, you have. Sir, the second question I had is for Sudipta sir. Sir, I mean, while in your opening remarks, you deliberated on this IRDAI consultation paper, insurance commissions. I'm just trying to understand, I mean, as we speak to more leaders like you, I think there's a conversation that is happening that we already know what is the impact on the revenues from cross-selling this insurance and from insurance commissions. Are there any cost levers which are there, which will offset the impact?

Because in your opening remarks, I remember you saying that there is significant scope for consultation with the regulator to make it viable for the BFSI companies to distribute the insurance commissions. And I think I also remember you spoke about some glide path, which can be there for insurance commission rationalization that's like it was done for EOM for insurance manufacturers.

But sir, let's just assume even if they give us a glide path, then also very clearly, there will be an impact which will be there. So, when you say that we still reiterate our Lakshya 2031 goal of getting to a 3% to 3.2% RoA. Now I remember Sachinn sir saying that the NIMs plus fees is expected to be in that mid-range of 10% to 10.5%, which is 10.25%.

Then if there is that insurance impact that comes over a period of time. And credit cost, maybe we have another 25 basis points room. So, what are the other levers which are there to get to that 3% RoA? And any cost lever offsets on the insurance commission side?

Sudipta Roy:

Yes. So, see, Abhijit, the thing is that this thing is currently, I would say, under discussion, right. So, for us, we would obviously engage with the regulator and try to see if the industry, we are part of the industry, whether the industry, as we said, gets a soft landing. We obviously, as an organization, as a responsible member of the financial services industry are completely aligned with the regulators' objectives of insurance for all, right?

And obviously, we will have to play a part in that particular role. The only ask is that the industry will be given time to adjust, right. And obviously, that is the reason why the regulator has given time for feedback. And I'm sure after the feedback goes in written format, there will be some discussions with the participants as well.

So, I do believe that there is a significant scope for a softer landing than what is put forward in the consultation paper. Having said that, obviously, as an organization, there will be obviously a change in business model in the way we do this over a period of time, right.

And as an organization, we are already working on what are the components of that plan B, right. And what are the sort of revenue drivers, what are the sort of revenue profiles of that plan B. Because as an organization, we will not sit down and do nothing, right. Obviously, our objective will be to attenuate that revenue loss.

Now the fact is that right now, if you ask me, basis the consultation paper, there is an estimate. But we just don't want to overreact to that. I'm being very, very candid on the call. We don't want to overreact to that because it is currently under discussion. And in many of the cases, as previously, we have seen, from a discussion paper, what comes, finally, what comes there is a lot of middle ground, which is covered during that particular period. And we are also hopeful that the regulator being reasonable, there will be some middle ground, which is covered.

So as and when the final guidelines come, obviously, we will come out with an official guidance as to what sort of possible RoA impact that would be there on an immediate basis. But what I'm really confident about, and I want to reiterate that, that in L&T Finance, over the last couple of years, we have had a strong track record of execution, right.

And that over the Lakshya 31 period, our objective is to make sure that whatever is this reorientation of the business model, which is there from an insurance cross-sell, we are able to sort of spread the impact across new lines of business, across new lines of revenues, new products. For example, we are talking about the payments product. I talked about the PPI product, right. PPI products, for example, can bring in a large amount of fee revenues as well as we see in banks. But obviously, these are businesses which will build over a period of time. You cannot expect that from day 1, these businesses build. But the fact is that they are all planned, and this is all planned as part of Lakshya 31 plan.

So as this plays out, we are reasonably confident that on a Lakshya 31 basis, our AI initiatives will give us large operational efficiencies, which will finally show up in opex. If you see our cost-to-income ratio actually has been falling. Cost-to-income ratio right now is about 39%. And it has fallen below 40%. Our objective is to drive it down further downwards.

We are working on a large cross-sell platform. The cross-sell platform is an agentic cross-sell platform, which means that it really does not require additional manpower to that extent that a physical cross-sell platform would require, right. So obviously, we are looking at optimization of origination, acquisition cost as well as incremental fee revenues there.

There will be obviously scope for revenue optimizations in our different lines of business. So, I do expect that over the medium to short term, right, we will be reasonably be able to sort of paper over any sort of impact that comes from this particular guideline, right.

There is also the possibility -- and we are -- anyway, we were setting up a one-to-one retail insurance distribution channel. We had already started on building that this year. Now we're starting to accelerate that build-out also. And H2 will see an accelerated build-out of that. So obviously, multiple motions are in progress. And as an organization, given our strong execution track record, we are reasonably confident that our stated objective of Lakshya 2031, which is delivering an RoA profile of 3% to 3.2% will be met. I hope that answers your question.

Abhijit Tibrewal:

Thank you, Sudipta sir, for that detailed explanation. With your permission, I just wanted to squeeze in one last question.

Sudipta Roy:

Okay, sure.

Abhijit Tibrewal:

Sir, just one thing. I mean, in this call itself, we have spoken that asset quality is holding up well. You also explained why there were some blips in collections in the product where we were trying to see if self cure in AI can work. All that points -- those points are well received. But now that we have rolled out Cyclops and the expectation is that, I mean, the last couple of years, the credit cycle was actually very benign.

Now that this year, monsoons have been bad, there are various states across multiple districts, they have called out droughts. So, this is where I think we'll all look forward to what actually Cyclops can deliver. And the fact that we have also implemented Nostradamus in Two-Wheelers and PL, and I think it's already a work in progress in MFI and Farm. You also called out there is no early warning signals that we are seeing right now.

But at the same time, sir, I mean, I remember in the RBI's MPC public statement that they made, they also said that there are risks to the rabi crop now because of weak monsoons. So, any views on that? Any early warning signals that we are picking up that Nostradamus is helping us?

Sudipta Roy:

Okay. So Two Wheeler portfolio remains extremely stable, right. We don't disclose individual business-wise granular 90+ risk numbers, but I will make an exception today. My Two Wheeler 90+ number remains at around 1.2%, right, which is the Cyclops 90+ number. The Cyclops 90+ numbers remains around 1.2%.

And Cyclops is almost close to about upwards of about 85% to 88%, almost close to 90% of my Two Wheeler base. So frankly, in a Two Wheeler business, where we are underwriting 92% to 93% prime customers, I really do not see, whether there is a drought or anything at all on our portfolio quality to even shift a little bit also, right.

And Nostradamus, to your question, Nostradamus has already helped us identify about ₹50 Cr of possible, especially in the Two Wheeler and the Personal Loans business, ₹50 Cr between collections cost save and between early resolution of hotspots during H1. We quantified this yesterday for our Board, right.

And I'm happy to share that information. So, these tools are working well. We are implementing Nostradamus in the Rural Business Finance vertical also for this particular quarter, this particular half. These are all very tough implementations. They take a lot of time and effort and a couple of reworks before we get finally get it right.

So, our credit administration frameworks are working well. For example, in the SME business, I would tell that in the SME business, our bounce rates from the Cyclops underwritten portfolio is exactly 50% of what now our legacy portfolios are. And you have been seeing that we have been growing the SME business at 20% to 25%, we've been growing the SME business, right. So, it is working well. It is giving us the results. For those of the investor community who have visited us, and we have had the chance to demonstrate these tools transparently to them, also have acknowledged that these tools are indeed powerful in terms of helping us isolate risk much earlier than probably a traditional implementation process would have done. So, these are -- this is all giving us good dividends.

Having said that, I really do not know how the rabi crop will proceed, but the fact is that we are seeing a good buildup of retreating monsoons in the South of India. As we see, you can see a very, very large cloud cover over Kerala, Tamil Nadu, Karnataka as we speak. So, I do believe that some of the rain shadow areas, probably will get rain in the next part of the retreating monsoons.

Our rabi crop, the overall reservoir levels are at about 71% pan-India. I think that's sufficient to support rabi crop, right. And I also foresee that the rabi crop should also be near normal. That is what my forecast is. Now the fact is that, look, I'm not an economist or an agricultural scientist that I'll be able to give a completely on dot forecast, but at least on-ground feedback for us is that rabi crop will be near normal.

One thing you have to acknowledge is that the state governments as well as the central governments have been reasonably proactive about handling the drought-affected areas. Many of the state governments have talked about extraordinary payout to some of the farmers in this particular area.

So obviously, the government machinery is also being focused on this. And I do believe that government interventions will also go a long way in softening the blow, especially in the rural areas. We are seeing a very strong start to the October season.

And across all our lines of business, we see significant uptick in business momentum, especially in the month of October, in the early part of October. And I expect the business momentum to pick up during Navratri as Navratri is currently going on and during the Diwali period. So, I see a reasonably strong Q3 as well.

Moderator:

We take the next question from the line of Avinash Singh from Emkay Global Financial Services Limited.

Avinash Singh:

A couple of questions. First is, again, continuing on the asset quality and all. Among the states where you have a sizable exposure in microfinance and possibly in Two-wheeler as well. So, Bihar has seen a very, very, I would say, extreme deficit in monsoon first, and then that Nepal flood extension coming -- leading to a flood in a large part of the state. So how do you see, and now that the festive season will come. So how do you see your collections and the asset quality outlook in this Rural Finance and Two-wheeler in the state of Bihar.

Secondly, the CGTMSE and parametric cover, I mean, is the cost of that cover would be kind of visible or a material in your opex line item? If that is the case, what sort of -- I mean, if I were to look at the overall cost to AUM, where it is, kind of, trending currently?

And thirdly, on Gold loan side now, I mean, very quickly and impressively, you have reached almost ₹10 Cr per branch average and especially when a significant part of branch has come up in the last 6 to 12 months. How do you see, I mean, eventually in a steady state, at what level AUM per branch? So, I mean, the growth, how much of it is going to be still contributed by the improving AUM per branch and another factor of the branch expenses?

Sudipta Roy:

Okay. First question, Bihar got good rain in the latter part of the monsoon period. There have been some floods. But the fact is that in Bihar, we really do not see much of significant impact there. Bihar actually is quite okay for us, right. So -- and I expect credit quality in Bihar to remain relatively stable.

So, no concerns on that, both in Microfinance and Two Wheeler. And also on the parametric insurance, we have -- Bihar is one of our states in which we have covered through parametric insurance. And I think we got -- already got some amount back as part of this particular Bihar flood.

Sachinn Joshi:

In fact we have recovered most of the premium about...

Sudipta Roy:

The fact is that we have got significant amount back, right, from Bihar -- from this parametric insurance in this recent flood in Bihar. So, it's working well. For the CGTMSE and CGFMU, they are not very large ticket sizes that we are not able to absorb. What is the important part is that they give us capital efficiencies, especially on the SME side.

Because the risk weights go down on CGTMSE coverage on the SME portfolio, we actually get a lot of capital efficiency and that leads to a capital release actually, right. And that one of the reasons you see our capital adequacy going up this quarter is also because we have boosted our Tier II capital as well as because of the CGTMSE, actually, there has been a capital release because risk weights have gone down, right.

So, in a way, it is beneficial for the organization from a risk cost point of view as well as a capital point of view, right. As well as it helps us to convert the sort of the hitherto unsecured portion of the SME book into a quasi-secured portion, right. So, which helps us to grow the SME book with a larger degree of confidence. What was the last question?

Avinash Singh:

Gold loans, sir.

Sudipta Roy:

Gold loans, yes. So, the Gold loans have actually improved quite well in terms of -- see, our branches are attaining critical size very fast, right. We have branches attaining critical size on an average of 6 months is what the branches are attaining critical size. So, this growth will continue for us, right. And the fact is that we will not stop at, by the end of this year, we are expected to be about 800 branches.

And we have a plan of expanding until about 2,000 branches, right, post which we'll probably take a pause and then try to consolidate. So, I believe that this year and next year will also be a strong growth area for gold loans because on an overall strategic perspective, we want Gold Loans AUM to hit about 14% to 15% of our overall AUM by the end of Lakshya 2031, which is Gold Loan AUM between ₹40,000 Cr to ₹45,000 Cr of total AUM.

That is what we want to hit. So, this is a strategic business for us. And one of the important things, which Raju said in his part of the call is that the gold loan branches are also now not standalone Gold Loan branches. A large number of Gold Loan branches are also Sampoorana branches. That means the Gold Loan customers who are coming in are also being used as a catchment for cross-sell of other products as well. So, it's an overall holistic model that we are playing up and we'll continue investing in it.

Sachinn Joshi:

Just to add on the gold loan piece, the biggest advantage why we have been able to roll out new branches and also achieve a breakeven quickly, usually, it takes 8 to 9 months to the business, actually throughput is much faster primarily because these are also the locations in and around where we have already been doing our other businesses. So, it's not that we opened a branch. It may be a new branch, but then we have been in these geographies, both rural, semi-urban presence is already there.

So, getting the business set up and the footfalls into the branch is much easier, especially because of the brand value, which L&T brings with it. So, this whole business is done especially on trust. And that's what we've been able to attract talent. We've been able to get the infrastructure quickly set up as well as the footfalls from the customers.

Moderator:

We take the next question from the line of Abhishek Murarka from HSBC.

Abhishek Murarka:

So, first question is on disbursements in consumer loans. Now this would not, I'm assuming, have any kind of seasonal element. But if you see on a sequential basis, it's been flattish, actually slightly lower. So, is it a risk guardrail issue? Is it a demand issue? Or is it something different? And going forward, how do you see this disbursement trend for the rest of the year?

Sudipta Roy:

Good question, Abhishek. So, it is something different. Okay. Let me tell you, the implementation of Cyclops in Personal Loans business is an extremely painstaking process, right. What happens is that

in, say, Two Wheeler or, say, Mortgage or for SME or for that matter, Tractors, your guy holds the distribution channel, right. So, you do one implementation and the entire funnel goes through that one implementation.

Now in Personal Loans, you have partners, you have PhonePe, you have CRED, you have Amazon, you have Google Pay. Each of them have their own priorities. Each of them have a different customer pool segment, right. So, it's not one single funnel it goes through. It is an implementation, bespoke implementation partner by partner, partner by partner. So, what happens is that when you do that, and as you know, when you touch things digital it goes through a little bit of stabilization process, right.

Because for example, when we implemented Cyclops in one partner, we over-corrected. So that led to a slight drop in the disbursements, which we then calibrated, right. And then we got it back to whatever the initial expectations were as to what it would deliver, right.

So, this is the overall process of implementation. And that is why because Q2FY27 has been a significant Cyclops implementation quarter. And typically, when we implement Cyclops, Cyclops is also very, very sharp in terms of cutting out the bad as well, right. So typically, even when we – Two Wheeler when we implemented Cyclops, we actually saw a contraction of market share in the first 6 to 8 months after which we started climbing up, right. So, this is because the system took a pause for implementation of Cyclops. It is not a credit issue. It is nothing else. It is basically, we have gone through a very tough period of Cyclops implementation in Q2, and that is why you see a flattish profile.

Abhishek Murarka:

So is the implementation now over across partners and now it is going to be building from here.

Sudipta Roy:

Yes, it is almost over. I think one partner is left. So, it should be BAU from here.

Abhishek Murarka:

And the partner that is left, is it responsible for a large amount of the sourcing? Or is it marginal?

Sudipta Roy:

Okay. It's a relatively large partner. So, it will go through.

Sachinn Joshi:

Abhishek, just to clarify, what is not visible when you look at the overall disbursement is the large partnership share, as pointed out, it has come to 40% now.

Sudipta Roy:

It will go up further.

Sachinn Joshi:

And which means that something is being given up to replace that, right. So, this share is increasing and the other share, the DSA sourced and all is proportionately coming down.

Sudipta Roy:

Yes. And Abhishek, going forward, all the partners who are coming on board, they're coming with a priori Cyclops. That means we do not take into the any old algorithms. They have to implement on Cyclops. So, what has happened is that the implementation pathway with some of the new partners is also a little more elongated because they have to go through this full integration process and the testing process.

Prior to that, where we could implement -- get live with a new partner in about a matter of 2 months. Now the same partner to take them live takes anywhere between 3 to 4 months because the Cyclops implementation process is a little difficult, right. It requires a lot of legs to run, right.

So that's why it is -- you will see though on a year-on-year basis, book size growth in Personal Loans is still 72%. So, it is not small, right. However, yes, on a sequential basis, the disbursement is flattish. You will see this growing in Q3 as well as Q4 again.

Abhishek Murarka:

So where should we reach now? As in let's say, Q3 would be a reasonable growth? Or what is the run rate now, say, in October so far or in the last month? Just to get a sense of where we can get to.

Sudipta Roy:

I don't have the numbers handy.

Sachinn Joshi:

₹1,400 Cr to ₹1,500 Cr is the monthly run rate.

Sudipta Roy:

Only ₹1,500 Cr is the monthly run rate now. We intend to take it in interim to about ₹1,700 Cr, ₹1,700 Cr to ₹1,800 Cr before we calibrate, do calibration once again before we -- see, this is a step function jump. We will grow, we will calibrate, we will grow, right. Because this is a business on which periodic calibration is as important as growth.

Abhishek Murarka:

No, that is perfect. That gives an understanding of where we are headed. The other question is in gold loans, very particularly, are you seeing more GS2 formation as more people are delaying payments? And is the rollback slowing down? Or is it still BAU? How are things going on there?

Sudipta Roy:

I'll ask Raju to take this call.

Raju Dodti:

Okay. I will snatch the word from your mouth. It is BAU at the moment. I mean the -- at this point in time, almost 15 months into the business, we have not had any episode of a loss so far. The actual way to

monitor this is in the form of auctions which we hold. In last 1 year, we have not had more than 3 episodes of auction, and the recovery is in excess of 140% of the amount that is due. As we speak...

Abhishek Murarka:

Sir, I'm not worried. Sorry to interject, but I'm not worried about the loss. I'm more interested in what is the customer doing now? Are they say, coming back to pay a little later than earlier, which is why I'm more interested in the GS2 component.

Raju Dodti:

No, we are not seeing that trend. In fact, we follow a 3-pronged approach. One is the SMS/WhatsApp message, followed by the call and the actual visit. We have seen a good amount of a traction of regularization of accounts once these 3 nudges happen.

Abhishek Murarka:

Okay. Okay. And just finally, to Sachinn, last quarter, we were expecting that on a full year basis, the cost of fund would be 4bps - 5 bps higher. Now you've managed to rebase, there is further possibility of raising CP. So, on a full year basis, should you actually end a little lower or flattish in terms of cost of funds?

Sachinn Joshi:

Yes, I would not want to mention where we would be. All I can say is 2 quarters left, 2 repo rate increases expected. Now it will all depend on whether it happens, doesn't happen. Number two, what is going to be our growth rate -- and number three, yes, the only possibility vis-a-vis what we were earlier, we never expected to go below 7%. Since we have gone below 7%, we stand a better chance compared to where we were earlier.

Moderator:

We take the next question from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe:

Continuing on gold loans, the slight delinquency or the rise, which I would agree is probably would be BAU. Is this kind of seen in bullet loans? Or is this sort of seen in the EMI loans?

Raju Dodti:

So, we have actually bullet loan as the main product and the monthly schemes got rolled out just 3 to 4 months ago. So, what we have seen is only in the bullet loan because the RBI new norms, which became effective on 1st April requires us to reckon the interest even if it is not paid. So only in that product, this has been observed and the regularization happens.

Nischint Chawathe:

Sorry, you just broke up. You said recognized interest or collect interest, sorry, you just broke up when you said.

Raju Dodti:

As per the new RBI norms, whether the interest has been paid or not, you have to reckon it for the purpose of calculation of LTV. That norm came into effect on 1st April. So, this has happened for the loan book, which is booked after 1st April.

Sudipta Roy:

Yes. So that portfolio is not really mature.

Raju Dodti:

That is not mature, yes.

Nischint Chawathe:

So whenever the LTV is..

Sudipta Roy:

It is a very recent portfolio, Nischint.

Nischint Chawathe:

Got it. Got it. Yes. Got it. The other question actually is on margins, and you have done a wonderful job in terms of getting your cost of funding down. But now given the fact that we are proactively cutting risk across cohorts of risk, especially in the rural India, what implication can it have on margins given the fact that some of these have been high-yield portfolios?

Sudipta Roy:

Yes. So, see, Nischint, one of the things is that we are doing risk calibrated disbursement, but I am not saying that my disbursements will go down. So, whatever I disburse, I will disburse at current rates, right. So I will obviously try to maintain my yields as far as possible. In fact, our entire teams are tasked with the task of taking the yields up as part of due normal operating procedures of business. So, I really do not see a reason why our yields would fall in any way.

Nischint Chawathe:

No, just for example...

Sachinn Joshi:

Let me complete maybe after that. So, Nischint, if you -- we had -- when we were implementing Two Wheelers, for example, the Cyclops underwriting, at that point of time, our assumption was that we will -- since we are moving more towards prime, we will actually end up reducing the overall rates. Okay.

But the tool has come -- has matured to a level where we are able to clearly segment the customer and the risk-based pricing is absolutely being working on the full portfolio. So whatever customer comes in, depending on the type of risk, the yields are accordingly adjusted. The yield is appropriately allocated for that particular risk.

And this has actually helped us in not just bringing the overall yields up from where they were because we actually started off with about 75 bps to 100 bps lower interest being charged when we actually migrated to Cyclops. And out of that, almost 70 bps - 75 bps has already been recovered.

And now we are -- like Sudipta said, we are almost 90% -- 92% prime. The balance portion of 8% is which actually helps us in terms of playing around to figure out whether we can go a notch or two below, take slightly higher risk, but still within the overall guardrails and charge more. And that has led to the increase in the yields on the Two Wheeler.

And the same thing will play out when we fully migrate for Personal Loans, for Farm, SME already -- we've started working. So, we -- the earlier thought process that moving towards prime will be a big hit to the overall yields is actually not really the case. Similarly, Microfinance, we moved to risk-based pricing. And the customers who have been with us for third, fourth cycle, naturally they have benefited. But at the same time, the new customer base gets whatever has to be charged based on risk that prevails. So actually, depending on the riskiness of the customer, we decide on what pricing should be adopted, and that will hold true going forward across all businesses and segments.

Nischint Chawathe:

I appreciate that your risk-adjusted pricing sort of gets optimized with the technology tools. The point I'm trying to make is that your yield plus fees today is around 16.3% on a reported basis. So probably your yield on the Microfinance business would, let's say, be higher than this. So, if that part of the segment comes down, then probably that has some impact on the margin. I think that's what I was coming to.

Sachinn Joshi:

Okay. Okay. So, you're talking about the yields going down because of the overall change in mix, right?

Nischint Chawathe:

That's right. That's right. That's right.

Sachinn Joshi:

So, the change in mix, that would come true if the highest yielding, which happened actually last 2 years when the Microfinance book, we had slowed down on growth. We actually grew only by 5% when the whole market de-grew. That was the time when our yields had come under pressure. Because the higher-yielding products like Micro LAP, which is growing, Personal Loan, which is growing as well as Gold loans, and SME, these are the 4 businesses which are growth businesses for us. And as we transition -- the biggest challenge comes if I continue to grow my mortgages, the existing mortgage book, which is the lowest yielding.

If I keep accelerating that growth, then I have a challenge. Over there also, we have introduced the economical housing product, which actually gives me a much higher yield compared to the normal HL / LAP book, which we have currently. So yes, we have to ensure that as we start growing the book and move towards a 20% CAGR growth up till 2031, the de-growth that will happen in Microfinance will be not because we are actually slowing down, but on account of other businesses picking up. So automatically, we have already come down by a couple of percentage points from where we were earlier.

And you have seen that we have been able to maintain and manage this 10% to 10.5%, kind of, range in terms of NIMs plus fees. I'm sure that we also have a few other fee-generating businesses that we have been talking about with the payment platform being set up, the cross-sell coming into play. So, over a 5-year period, it's not that we will not do any change to the way we do business or the new things that we will be doing. All those will keep adding or some of the things may go off, but some other things will come up. And as per plan, we will keep working on that over the 5-year period.

Moderator:

We take the next question from the line of Vikram Subramanian from Marshall Wace.

Vikram Subramanian:

Thanks for all the outlook you have given. Glad to see that we are on path to the Lakshya goals. A couple of questions. Firstly, on the cost of funds, I think in one of the earlier answers or discussion, you had mentioned that a portion of non-PSL bank borrowings is usually in the form of a line of credit like WCDL.

Generally, what proportion of borrowing have you been maintaining this line of credit, meaning what mix -- what is the usual mix for these? And what would have been the rate at which we would have been able to raise this? And what was the low-cost borrowing we were able to raise -- just some data on that.

Sachinn Joshi:

Vikram, this -- maybe we can do this on a one-on-one basis because it's too granular. We can always get the data for you. The total bank borrowings, which I'm referring to is the 28% bank loan non-PSL. Part of this will be in the form of lines of credit, part of these will be the term loans. Even the term loans, which come up for maturity would be the high-cost borrowings, which would have got replaced with low cost. So, if you want exact breakup of this, we can discuss one-on-one.

Sudipta Roy:

Yes. But some of the initial headline data is available in slide 38. That is the breakup of how it has moved over quarter-quarter.

Vikram Subramanian:

Sure. Got it. Got it, sir. That's -- yes, we can take it up. And just another question on the non-interest income. In your revenue. That seems to have slowed down a bit this quarter. So just wanted to check if there were any movements there?

Sachinn Joshi:

Yes, you're talking of fee and other income, right?

Vikram Subramanian:

Yes, fee income and other income, yes.

Sachinn Joshi:

Yes. So fee and other income in quarter 1, we had mentioned on the call that we had about ₹4,000-odd Cr of excess liquidity kept because of the external environment getting worse. So that had led to interest cost actually going up in rupees crore. And also the -- those moneys are part of the liquidity surplus that we kept.

This liquidity surplus is invested in various instruments, which actually are, the income of which is captured in the form of other income, fee and other income. So that is about 20 to 22 bps. That was one of the key differences in a quarter. Usually, it is about 180 to 185 bps. That has been the range for us. So major difference that you see in terms of reduction is on account of that.

And on a YoY basis, if you look at, there have been the disbursements and processing fee, it depends on which particular business you are actually growing. The Gold Loan disbursement, we have not yet initiated the insurance on the Gold Loan disbursements that we make. So, what -- depending on which disbursement you're doing, the CLI income goes up or in percentage terms, it may go down.

Moderator:

Ladies and gentlemen, we take that as the last question and conclude the question-and-answer session. I now hand the conference over to Mr. Sudipta Roy for his closing comments.

Sudipta Roy:

I trust we have been able to address all your queries. As always, please reach out to our Investor Relations team in case any of your questions have been left unanswered. I thank you all for joining us today. Best wishes from L&T Finance to all of you and your families for the festive season ahead.

Moderator:

Thank you. On behalf of L&T Finance Limited, that concludes this conference call. Thank you for joining us, and 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