January 28, 2025

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 – Q3FY2024-25 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 Q3FY2024-25 financial performance and strategy update held on January 21, 2025.

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

We request you to take the aforesaid on records.

Thanking you,

Yours faithfully,

For **L&T Finance Limited**
(formerly known as L&T Finance Holdings Limited)

APURVA NEERAJ RATHOD
Digitally signed by APURVA NEERAJ RATHOD
Date: 2025.01.28 18:12:58 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

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L&T Finance Ltd.

Q3 FY25 Earnings Call Transcript

January 21, 2025

Management Personnel:

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

Mr. Sachinn Joshi (Chief Financial Officer)

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

Moderator:

Ladies and gentlemen, good day, and welcome to L&T Finance Limited Q3FY25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing star, then zero on your touch-tone 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; 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Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the conference call. Only publicly available documents will be referred to for discussions during interactions 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 While all efforts would be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call.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 Q3 results presentation sent out to all of you earlier.

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, thank you for joining us today. I would also like to wish you all a very happy and prosperous New year on behalf of the entire leadership team at LTF. Today with me on the call are – our CFO, Mr. Sachinn Joshi, and the senior management team of L&T Finance.

Today’s call is divided into two sections, taken up sequentially by myself and our CFO – Mr. Sachinn Joshi, who will be talking about the overall business metrics & financial performance at length.

Post our opening commentary, we'll be happy to take questions on the call.

Macro-economic outlook

Before moving to the highlights of the quarter, I would like to give you some flavour on the Macro-economic scenario and sectoral outlook.

Global backdrop remains uncertain at this point as possible policy pronouncements in US, cloud visibility of outcomes in global trade and financial markets. In the meanwhile, stronger growth momentum and high policy rates in US, continue to drive flow of funds towards the US Dollar assets and adding pressure to financial assets in the Rest of the World. Sharp shift in external landscape has triggered tighter liquidity conditions and currency volatility in domestic financial market as well.

In the meanwhile, delayed government spending, mixed demand signals and credit squeeze has hit GDP growth momentum in the domestic economy. Slower urban consumption and moderate investment activity has only partly been offset by rural recovery, leading to a sharp dip in growth during the second quarter of FY25. Government’s first advance estimate of Real GDP highlights a tampered pace of economic activity in FY25 at 6.4% annual growth, well below the 8.2% growth in FY24.

Acknowledging the headwinds to consumption demand and private investment in the economy, RBI has also revised down its Real GDP growth projection for current fiscal year. RBI also revised up its inflation projection, highlighting the challenges of bringing down the headline inflation to target level in the current fiscal year. While Headline inflation has seen some moderation in November and December, as improvement in mandi arrival of vegetables and bumper Kharif harvest help ease price pressure of volatile components, Core CPI inflation and WPI have seen some uptick indicating broadening of inflationary pressure in the economy.

High inflation level and lower government spending has hit the disposable income available with consumers for discretionary spending. Urban consumption has shown signs of fatigue with the exhaustion of pent-up demand, while rural consumption, despite gradual improvement, remains inadequate to offset urban drag. Unexpected weather events, depreciating currency and worsening of geopolitical conflicts constitute major upside risks to expected moderation in inflation levels going ahead. Hence monetary and fiscal policy interventions to support consumption are key to sustained growth recovery in H2.

In the quarter ahead, we expect rural recovery to continue and hope for uptick in urban demand as inflation levels drift lower. Some of the squeeze in economic momentum is already reversing in Q3FY25 and fiscal support has picked up as well. With further fiscal and monetary support expected in the upcoming budget announcements and monetary policy announcements, we keenly watch for these early green shoots to turn into strong growth drivers in coming months.

Q3FY25 Highlights:

I would like to share that despite the challenging operating environment in the microfinance sector, our diversified franchise has enabled us to achieve the highest festive quarter disbursements of ₹ 15,210 Cr, a growth of 5% YoY and we have been successful in sustaining the trajectory in line with the Lakshya 2026 goals.

Our Retail book now stands at ₹ 92,224 Cr, a substantial growth of 23% YoY. The numbers reflect the strong execution engine aided by a proactive portfolio management and prudent risk management that we have put in place over the last couple of years, and we will continue to bolster the execution bias in every initiative we take.

Many of you would have attended our Investor Digital Day in November, 2024 along with RAISE'24, our AI BFSI conference, where we showcased several of our technology initiatives, some of which could be transformational when successfully completed. I am pleased to share that the progress on these initiatives during the last quarter has been satisfactory. Our next-gen credit underwriting engine 'Project Cyclops' was extended to 100% of dealerships in Two-wheeler Finance and was also launched for Farm Equipment Finance business. In our pursuit of innovation and fostering partnerships within the lending landscape, we established a strategic partnership with Amazon Pay to develop cutting-edge credit solutions, while also extending PhonePe partnership to Personal Loans, thereby delivering a seamless digital lending experience to our customers.

Additionally, we launched Knowledgeable AI (KAI), an AI-powered chatbot that revolutionizes the home loan experience. Furthermore, as announced in the Investor Digital Day, we have commenced work on 'Project Nostradamus', a first of its kind AI driven automated portfolio management engine. We intend to release the beta version of this new technology engine in Q2FY26.

As we look ahead, we remain dedicated to driving innovation and enhancing our offerings to better serve our customers.

Update on Lakshya 2026 Goals

Now, I would like to provide an update on our quarterly performance against the Lakshya 2026 goals:

- The first milestone was to achieve Retailisation of >95%. I am pleased to share that we have surpassed this target with 97% retailisation at the end of this quarter.

- We had earlier set ourselves a retail book growth target of 25%. However, given our outlook of the business environment in different segments, we have consciously chosen to slow disbursements in segments where risk reward was not in our favour. Consequently, our retail book growth for the quarter stood at 23% YoY, a growth rate we are satisfied with, given the current circumstances. Specifically, as delineated in Slide No. 30, you will observe that in Q3FY25, our RBF disbursements were calibrated downwards to ₹ 4,599 Cr, while simultaneously in other business segments such as Farmer Finance, Housing Finance and Personal Loans, we have maintained growth trajectory based on our confidence in our new generation underwriting capabilities and the market potential. In particular, we have skewed our sourcing efforts towards onboarding more prime customers, who in general exhibit credit resilience during downward credit cycles. In line with this, in the TW business, 69% of our disbursement in the month of December, 2024 was to the prime segment, a number which has jumped to 75%+ in the elapsed timeframe in January, 2025.
- Thirdly, this retailisation thrust had to be credit calibrated with a goal of retail GS3 below 3% & NS3 below 1%. I would like to inform that while the quarter witnessed an increase in slippages owing to macro challenges in the RBF segment, the Retail GS3 & NS3 levels stayed close to the threshold levels. The corresponding consol asset quality metrics in this quarter remained healthy with GS3 at 3.23% & NS3 at 0.97% (below the Lakshya threshold of 1%).
- The fourth and last milestone on RoA front, we have moved from tracking Retail RoA to Consol RoA in the range of 2.8%-3.0% as per our original Lakshya 2026 targets. Our Consol RoA for Q3FY25 stood at 2.27% down by 26bps YoY, which is a mix of two factors, i.e. a compression in NIMs + Fees on account of a conscious calibration in the RBF business and an increase in credit cost during the quarter. I would like to highlight that our credit cost over the past 12 quarters has been in the range of ~2.60% thereby displaying predictability across cycles. We remain confident that in accordance with the initiatives towards sourcing better quality customers and investing in the next-gen underwriting platform like cyclops, along with the improvement in macroeconomic environment will help resume our journey towards delivering 2.8 - 3.0% RoA.

<u>Executive Summary</u>

I would like to quickly run you through the key highlights of our performance in Q3FY25.

- Consol PAT of ₹ 626 Cr in Q3FY25.
- Despite a calibration in RBF disbursements, the retail disbursements for the quarter stood at ₹ 15,210 Cr, registering a growth of 5% YoY, driven mainly by robust performance exhibited by the Farmer finance, Housing, Personal Loans and SME segments.
- Retail book for Q3FY25 stood at ₹ 92,224 Cr, up by 23% YoY. Consol. book grew at 16% YoY reaching ₹ 95,120 Cr in Q3FY25.
- Our 5 Pillar strategy continues to be central to our roadmap to the future. We continue to granularly execute the 5 Pillar strategy, details of which are available from Slide No. 12 to Slide No. 28 in the investor presentation.

The year had a challenging operating environment with certain macro events viz. prolonged heat wave, severe floods in several states and temporary slowdown of government expenditure & grants due to general elections, leading to increased credit cost for Rural Group Loans (RGL) & Microfinance business (MFI) portfolio, thus warranting a case for utilisation of the macro prudential provisions created during COVID (FY21 and FY22). We estimate, based on current trends, that before utilisation of macro prudential provisions, the total credit cost in the RGL and MFI business will be in the range of ₹ 950 Cr – ₹ 1,000 Cr for full year FY25. In light of the above, the Audit Committee and the Board have approved the utilization of an amount of ₹ 100 Cr out of the macro prudential provisions in Q3FY25. Our advance estimate of the macro utilization in Q4 is in the range of ₹ 300 - ₹ 350 Cr based on a peak credit cost on the roll-forward book of Q4FY25.

With abating of the above macro events and early green shoots of stabilization in Collection Efficiency (CE) in Dec’24 and Jan’25 (till date) CE being slightly better than same time last month, we anticipate an improving CE trajectory for RGL & MFI portfolio during Feb and Mar’25, thus signalling sustained recovery trends in this business. Our analysis tells us that the onset of MFIN 2.0 guardrails from April, 2025 will ultimately lead to recovery of the credit profile of the sector, albeit at a marginal cost to growth. These norms would be value accretive for participants with high quality franchises.

As asked by many of you in our earlier calls, we have endeavoured to give detailed portfolio cuts on our RBF business in the Investor Presentation. You may please refer to Slide Nos. 16 to 20 and Slide No. 35 of our Investor Presentation for the same.

We are currently evaluating adopting the CGFMU credit guarantee scheme in certain geographies and segments to optimise the unforeseen event risks in the RBF business. We will be in a position to provide greater details around this in the subsequent quarters.

Double Click on the 5 pillars of execution

As mentioned earlier, I would now like to give a brief update on the 5 pillars of execution that we had enumerated over a year back and continue to be in implementation mode against the same.

1. **Customer Acquisition -** We are continuously working on deepening the customer acquisition funnel both, horizontally (greater geographical coverage) as well as vertically (greater counter share at dealer points). As in the last quarter, this quarter as well, our focus has been on new customer acquisition, albeit with necessary credit adjustments to maintain the future portfolio quality. Accordingly, there has been calibrated channel optimisation in Two-Wheeler and Rural Business Finance vertical with sustained focus on better quality and under-leveraged customer acquisition. We added a total of 5.8 lacs new customers during the quarter. Further details around customer acquisition and repeat share are available on Slides 13 & 14 of the Investor Presentation.
2. **Sharpening Credit Underwriting -** Our proprietary credit engine, Project Cyclops that was operationalized in Q1FY25 has been extended to the Tractor business (currently live with 24 Scorecards), and having been scaled to 100% of Two Wheeler dealerships, where it is currently live with 18 Scorecards, showcasing encouraging results with Net 0+ reduced by 120bps in the TW portfolio over a four month period when benchmarked to the Non-cyclops portfolio. Cyclops will be implemented for the Personal Loans & SME Business Loans in the coming quarters.
3. **Futuristic Digital Architecture -** We have spoken at length on our technology initiatives on our Investor Digital Day and granular details on our technology initiatives have been provided for each line of business. Our biggest technology initiative for next financial year would be operationalizing Project Nostradamus, a state of the art, first in industry AI driven automated portfolio management engine.
4. **Brand Visibility -** We continue to focus on brand building with Jasprit Bumrah as a brand ambassador for L&T Finance products. Having successfully concluded RAISE, India's premier AI-themed event in the BFSI sector, which saw more than 8000 registrations and reached an engagement level of 3 lacs, we participated in the India Bike Week, 2024 where the unveiling of the LTF Zoom Two Wheeler Loans took place. As we move ahead, you will see a set of integrated marketing campaigns and targeted branding exercises in the upcoming quarters.
5. **Capability Building -** On the capability building front, I would like to inform you that the Regional Business Head structure was further strengthened during the quarter with institutionalisation of periodic reviews and processes. Additionally, we worked upon capacitising and upgrading our infrastructure at various branches

across the country while also opening an integrated Tech, Operations and Data Science facility at Mahape, Navi Mumbai. On the employee initiatives front, we continued to work around performance and productivity with the introduction of integrated employee scorecards and took several employee engagement measures during the quarter, details of which have been provided in Slide No. 28 of the Investor Presentation.

Update on New Product initiatives

As part of our strategic growth roadmap, we are committed to building a well-diversified asset profile, minimising concentration risk on any single line of business. With that end goal in mind, we remain committed to growing our existing and new lines of business while also looking at synergistic opportunities. Amongst our new product initiatives, our team has been successfully scaling our Micro LAP, Warehouse Receipt Finance and Supply Chain Finance products. In the Micro LAP domain, as we shared in our Investor Digital Day, our existing distribution is being leveraged to upsell this secured high RoA product to the cream of our RBF customer base. The Micro LAP asset book has crossed the milestone of ₹ 300 Cr in Q3FY25. Some of you may recall that on our Investor Digital Day, we had called out a booksize of ₹ 214 Cr for this business – exciting growth, albeit on a low base. Similarly, our Warehouse Receipt Finance business housed under the Farmer Finance vertical has also shown encouraging initial traction. This business, which operates on a first of its kind completely paperless journey and digital workflows driven through a network of ~25 branches and presence in ~80 mandis has achieved cumulative disbursements of ~₹ 350 Cr in FY25 YTD. Lastly, our supply chain business housed under the SME vertical was launched in Q3FY25 and while it is still early days, we are optimistic that this business too can scale significantly and profitably.

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

Business as Usual 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 stood at 10.33% vs 10.86% for Q2FY25 on account of conscious shift in disbursement and book mix due to a challenging credit scenario in RBF
- Consol PAT for the quarter stood at ₹ 626 Cr
- Healthy quarterly retail disbursements of ₹ 15,210 Cr, up 5% YoY
- Retail book stands at ₹ 92,224 Cr (up 23% YoY) on the back of healthy retail disbursements during Q3FY25. Our Consol book stands at ₹ 95,120 Cr, up 16% YoY
- Consol RoA stands at 2.27%, down 26 bps YoY
- Consol RoE at 10.21%, down 114 bps YoY

Retail Businesses:

Rural Business Finance
The business registered quarterly disbursements of ₹ 4,599 Cr (down by 16% YoY), the trajectory aided by prudent disbursement strategy. The book size reached ₹ 26,231 Cr (down 1% QoQ and up14% YoY) in Q3FY25.

Farmer Finance
In Farmer Finance, disbursements stood at ₹ 2,495 Cr in Q3FY25 (up by 23% YoY), better than average monsoon and festive season demand resulted in a double-digit growth. This led to the book size reaching ₹ 15,075 Cr, reflecting a growth rate of 9% YoY.

Urban Finance
The segment, which comprises Two-Wheelers, Personal Loans, and Home Loans/LAP businesses, saw a 21% YoY jump in overall quarterly disbursements. As a result, the overall book size increased to ₹ 43,957 Cr in Q3FY25, translating into a 31% YoY growth.

- **Two Wheelers:** The TW business registered quarterly disbursements of ₹ 2,414 Cr in the quarter (down by 5% YoY), partly due to the strengthening of documentation and credit guardrails taken by us during the quarter for sourcing of better quality credit tested customer and shift towards prime customers. The book size increased to ₹ 12,676 Cr, up 21% YoY.

- **Personal Loans:** In Personal Loans, we achieved disbursements of ₹ 1,642 Cr translating a growth of 94% YoY with the book size at ₹ 7,820 Cr, an increase of 22% YoY. During the quarter, the double-digit growth in this segment was led by scale up of fintech partnerships and expansion of physical distribution through the DSA channel with focus on salaried prime customers. Our large partnerships business has already started meaningfully contributing to our origination volumes. It was ~12% of the overall disbursements done during the month of December, up from a mere 3% contribution in September, 2024.

- **HL/LAP:** In Housing, we achieved quarterly disbursements at ₹ 2,475 Cr, up by 24% YoY with the book size at ₹ 23,461 Cr, an increase of 41% YoY, while maintaining a pristine secured portfolio performance.

- **SME Finance:** Our Q3FY25 disbursements stood at ₹ 1,249 Cr, up by 29% YoY. The book stood at ₹ 5,817 Cr. The growth in business volumes was aided by building additional channels to diversify the existing sourcing funnels.

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

Sudipta Roy:
Q3FY25 has been a challenging quarter for the entire industry. Our teams have worked extremely hard to deliver a reasonable outcome for us. We are cautiously optimistic that the worst is behind us, and we are hopeful, going into our annual business planning exercise for FY26, that we will be able to continue delivering on our promises of asset growth, profitability and RoA.

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

Moderator:

We will now begin the question-and-answer question. The first question comes from the line of Saket Chheda with DAM Capital. Please go ahead.

Saket Chheda:

Congrats on a pretty good set of numbers, more so on MFI front, where we have been meaningfully better versus peers. So, my query was on one of the notes to accounts, wherein we have mentioned about ₹ 250 Cr of provision reversed to P&L account, as is mentioned. But when we see the credit cost ex of the overlay also, it seems that the benefit has not been taken into P&L. So, has that been reserved for the SRs that we would have received against the ARC sale? Just a clarity on that is what I would request.

Sudipta Roy:

Saket, there was a disruption in between. We lost majority part of the question. So, for the benefit of others on the call, can you repeat the question once again?

Saket Chheda:

Sir, my question was regarding the ARC sale related notes to accounts, wherein we have mentioned about ₹ 250 Cr of provision reversed to P&L. But when I see the credit cost ex of overlay also, it doesn't seem that we have taken that benefit. So, is it that we have reserved that ₹ 250 Cr, which was available for the reversal against the SRs that we have. And once that SRs get monetized, that's the time when it will be reversed on P&L?

Sachinn Joshi:

Yes. Thank you, Saket. Thank you for asking the question. There have been some queries on this. You are right. Actually, as per the Ind AS accounting, we cannot take whenever transfer of assets happens to ARC. The provision reversal is just a routine item, which comes as a credit. But 85% of whatever asset goes to the ARC comes back as an investment on the book. So, in this particular case, ₹ 250 Cr got first credited, it got reversed to the P&L. And then the same amount of provision was created when the SRs were created on the books of the 85%.

I will just enumerate the exact chronology and the numbers that have been shown over there. So, ₹ 776.37 Cr was the principal outstanding of the loan transfer. This was the POS. The EAD against this was ₹ 815 Cr, and this ₹ 815 Cr of asset was actually sold at a gain at ₹ 833 Cr. So about ₹ 18-odd Cr of gain was made on this. And 75% of this ₹ 833 Cr was actually booked as an investment, which comes to ₹ 708 Cr. So, against this ₹ 708 Cr, we have, first of all, adjusted the profit made on this because that also cannot be taken to the P&L. So, ₹ 18 Cr was adjusted. And the ₹ 250 Cr, which was reversed to the P&L, was also adjusted against this. So totally, ₹ 268 Cr has been adjusted against the ₹ 708 Cr of SR value. And the net carrying value in our books as of 31st December stands at ₹ 440 Cr. Because both the assets on the loan book also is being accounted through the FVTPL route and the investments are also accounted for in the same way, you can't see the actual provision which has been made, which has actually got subsumed into the financials. Maybe by when we do the 31st March full-fledged financial, this will be visible.

But yes, you're absolutely right that there was no credit taken and adjusted against the credit cost. This is just a setting off, just getting reversed from loan book and getting again adjusted towards the SR security receipts, which has been booked in the books. I hope it clarifies.

Saket Chheda:

Yes. And this was a real estate account, right?

Sachinn Joshi:

That's right.

Saket Chheda:

Sure sir. That’s all from my side.

Moderator:

Thank you. The next question comes from the line of Digant Haria with GreenEdge Wealth. Please go ahead.

Digant Haria:

Thank you for the opportunity. Two questions, Sudipta. First is that you mentioned that in Tractor and Two-wheeler, we have significantly reduced the risk by going more towards the prime segment. So, when I look at your provisioning, even if I remove the whole microfinance-related provisions of ₹ 170 Cr this quarter, we are roughly at a run rate of, say, ₹ 400 Cr - ₹ 450 Cr of provisions for the quarter for the rest of the business. So, do you think that the benefits of this whole moving towards prime and this better underwriting, all of this is already showing in the provisions number or the credit cost can still go down further in the non-MFI part of the business. That's my question one.

Sudipta Roy:

Okay. So yes, Digant, in the sense that the full benefit of all the work that we have been doing is still not visible because it's a gradual process. You have a legacy portfolio at a particular credit profile and you have this new portfolio coming in at a lower credit cost trajectory. Obviously, the new portfolio has to build and the old portfolio has to wash out for the entire benefit of this to be visible. So, I would reckon that it will take a couple of more quarters for this to be fully visible. It is not fully visible yet. However, internally, when we monitor the credit performance of the new portfolio vis-a-vis some parts of the legacy portfolio, that is already visible to us, but it will take a couple of more quarters to fully fructify.

Sachinn Joshi:

So just to add in terms of numbers, if you recall, in the previous quarter, we had made a mention that there were a couple of steps taken, especially on the Farm portfolio, we had stopped the repossession at 90 plus. And there will be an impact on account of this through the roll forwards for a couple of quarters. I think by Q4, that impact should get over. So, one is on the Farm portfolio, this is the impact. On the Two-wheeler, the Tier 2, Tier 3, Tier 4, those kind of cities, the impact which you saw in the Microloan piece, we talked about the rural, there was some impact on account of heat wave and all across the country. So Two-wheeler also, after Sudipta has come in, we have already changed the strategy and started moving towards prime. And as we speak, I think 49% to 50% of our book now is prime. The impact on the credit cost will start as this book starts seasoning, you will start seeing the impact coming into the P&L. And I think 2 to 3 quarters is what perhaps we will take to see the complete benefit of the pristine quality of the Two-wheeler book, which is being built now.

Sudipta Roy:

And Digant, if you see we have put in two additional slides this quarter in the investor deck, which is Slide #23 and Slide #24 where we have given our indexed representation of Two-wheeler portfolio bounce. And you will see that our Two-wheeler portfolio bounce is already at about on an index basis at 84% in December 2024 compared to 100 index in December 2023. So, it is also trending down. And if you look at our sort of net non-starter in our Farm equipment finance business which is basically the number of people who bounce their first EMI. That is at

25% level compared to the same number in December 2023. That means in December 2023, 100 people bounced the first EMI. In December 2024, only 25 people bounce the first EMI. So, we put this as an index form just to sort of demonstrate the better-quality portfolio that we have been focusing on building. I mean how some of it is showing up in the leading indicators, which is the bounce rate. We consider bounce rate being the leading indicator of credit quality and that is currently trending well. Obviously, this over a period of a couple of quarters will find its way into the credit performance because as the new portfolio builds with these better credit parameters that should obviously translate into lower credit costs.

Digant Haria:

Perfect. Thank you so much for that detailed answer. Second question is on -- Sudipta, on this whole -- this NIMs + Fees guidance we have it in the corridor of 10% to 11%. But now, let's see, we have done quite well in microfinance versus competition or versus what the general sector is. But that also, maybe next two, three quarters the growth may not be as strong as it was in the past. So obviously, that fees and the fees plus interest income is highest in that division. How do we compensate that given that we are seeing more growth in the LAP home loan portfolio which are obviously at much lower IRR. So how does this whole trade-off work for the next 12 months? And then is the ₹ 100 Cr extra Opex that we saw in this quarter related to collection efforts in Microfinance division?

Sudipta Roy:

Yes. So I'll give you the first -- the answer to the Opex question that's very straightforward. The fact is that this being the festive quarter, we had certain festive-related spends. Secondly, as you are aware and we had informed in the last quarter that we have actually -- we beefed up our collections workforce. So that has got an additional component of expense plus there were certain technology-related expense during this quarter because we have been operationalizing Cyclops across all our lines of business. So, these are the three primary main drivers for some of the increased opex that we have seen this quarter. And so on the NIMs + Fees, yes, there is no easy answer to this. This is a journey that we have told that we are going to travel. And obviously, it's sort of the ongoing credit challenges in the microfinance sector. Obviously, it does not help us sort of -- does not smoothen the journey for us. Obviously, there are a couple of things to this.

First and foremost thing is that we have to increase our fee base. We are working on increasing our insurance penetration. Right now we do insurance only at origination. However, we have a full institution insurance distributor license right now. Now we can sell through the life cycle. That team is building. We are putting together a technology platform for the same. So, we are hopeful that over the next couple of quarters, some more of those fee revenues will come in.

In terms of growth, we are trying to grow our slightly higher yield secured business, for example, our micro LAP business though albeit on a small base, we are trying to grow it. We already have 80 branches. We are going to grow it much more in the next couple of quarters. You can see that personal loans have been growing quite well. Personal loans on a quarter-on-quarter basis has -- on a year-on-year basis has grown by about 94%. Our large partnerships are scaling up well. And one of the things we have noticed is that in terms of digital delivery sometimes you can sort of work on increasing your interest yield without losing too much of expense on that. So, we'll work on some part of nullifications through our personal loans growth. And we are hopeful that even though certain markets of the -- in the RBF business, JLG business, there is stress. There are certain virgin markets where actually, you can safely grow. And I can give you example. There are certain markets that we have ventured into in the last couple of quarters, new markets like AP and Telangana, our collection efficiency is 100%. And we continue to sort of judiciously deploy our branches there. We are focusing on Western UP where collections efficiency trends well. We are focusing on Western Maharashtra where collection efficiency trends well. So, we are finding those pockets in the JLG business where our collection efficiency is trending well and where we can do safe non-leverage business. So, it's a tight balancing act. And I do believe that it will not be easy, but we will try to definitely be within that corridor. Obviously, there is one large sort of part wherein if now possible RBI rate cut or a couple of cuts were to come next year, that will probably ease the challenge a little bit, but we cannot obviously count on that completely. So overall, a couple of irons in the fire and we will continue to work towards sort of that trajectory.

Sachinn Joshi:

Digant just to add, in terms of the overall modeling. Yes, we -- last quarter we had mentioned that it could be in the range of 10.5% to 11%. But directionally, just like to your earlier question, we were talking about how we are moving more towards prime. So, what would happen directionally over a period of time, maybe the NIMs + Fees it may actually be slightly downwards. But at the same time the opex plus credit cost also will move downwards. So, the RoA which is if you're actually derisking yourself of bringing down the risk, you will find that the RoA will overall adjust. So, the whole RoA tree would possibly move left, where you will have -- you will see that the 10.5% to 11% may actually come down slightly. But at the same time, you will find that the operating expenses because of the productivity levels would increase and the overall opex as a percentage of the book as well as credit cost as a percentage of book on account of the steps being taken may move downwards. Thus, actually impacting the RoA only positively. So, we will still stick to over a period of time, the RoA directionally to be in that corridor of 2.8% to 3%. But the all other numbers may -- the percentage terms, they may actually change for the better because we will have a much stronger book which maybe slightly lower yields, but coupled with steps which we will be taking, as Sudipta mentioned, there will be other line items of fees and all which will get added. There will be new businesses or products that we may get into over a period of time which we will start working on the next full year business plan and we would possibly come back to all of you at the end of -- when the results for Q4 come.

Digant Haria:

Thank you so much for the detailed answer. Thanks Sachinn and Sudipta. All the best.

Moderator:

Thank you. The next question comes from the line of Kunal Shah of Citigroup. Please go ahead.

Kunal Shah:

Yes. Thanks for taking the question. So firstly, maybe if you can just highlight how much has been the write-off, particularly on the Two-wheeler and PL because outside of MFI also we are seeing a slightly higher stress out there. And still, in terms of the growth in PL that seems to be quite aggressive. So, would we look at pulling back growth at any point in time because of the higher delinquencies in PL?

Sudipta Roy:

Kunal, I'll take the PL growth question and then Sachinn will give you -- take the rest of the part of the question. See, PL we are very clear that we will not do PL to any leveraged segment or any non-prime segment. Our growth in PL primarily is coming from prime salaried segment. So, if you see our DSA, we do 99% salaries in our DSA channel. If you look at our large partnership, our target in large partnerships is towards prime salaried. In fact, some of the metrics are absolutely clean in this business. So, we are very clear that our PL scale-up will be very risk calibrated. See, on a percentage terms it might seem high, but from an actual quantum perspective we are still doing about ₹ 550 Cr to ₹ 600 Cr of PL a month which is not very large. So, we are gradually scaling up this business and the metrics are currently absolutely okay. As long as -- we do believe that as long as we do prime salaried business with a sharp eye on both aggregate debt burden as well as unsecured exposure overall metrics we should be fine. And we are implementing Cyclops for PL also this quarter. Parallelly, SME and PL Cyclops we're implementing this quarter. So as PL and SME Cyclops get implemented this quarter, the unsecured business will, I believe will be run in a far, far more safer fashion.

Sachinn Joshi:

Hi Kunal. Sachinn here. Yes. On the write-offs, usually we don't give these numbers. Last quarter we gave the number as an exception, but the overall write-off like we mentioned on the call previously is a function of -- it's a technical write-off because any asset which gets provided up to 100%, there is a pool of assets which are taken up for writing off in the book. But at the same time, that does not mean that business stops the efforts on collection all those things.

So yes, RBF, you have seen that the roll forwards have been happening. And out of that pool, last quarter we had given -- we had specifically clarified that the whole write-off was not RBF. All I would like to say is that it is distributed amongst products. So, it is not one business where the write-offs are very high. About ₹ 300 Cr, I can share for the micro loan piece is what we wrote off. And rest all the businesses have been almost equitably done.

Kunal Shah:

Yes. So more in terms of the credit cost, not particularly write-off, but if you have to look at it like credit cost is very clear this time in terms of how much MFI is contributing. And maybe you indicated that from the wholesale side there seems to be like zero impact, no recoveries and no provisioning during the quarter. So how would be the breakup there between, particularly Two-wheeler, tractor and consumer loans?

Sachinn Joshi:

See, on the Digant's question we already responded to this. That for a couple of quarters, Farm, Two-wheeler and PL will see some challenge. And thereafter, you will start seeing things changing for the better because whatever challenges we have faced in the first quarter are not restricted just to rural business. I mean the election time as well as the heat wave, all this led to liquidity going out of the market, led to a situation of overleveraging and there has been an impact across businesses. The most was felt, of course, in the micro loan market, but the other businesses have also got impacted to a level. Plus at the same time, we have been directionally moving ourselves more towards prime and all. So, like we called out in the last quarter, it will be two to three quarters of some pain which will be -- and it is not just one particular business. What I -- what we would like to highlight is it's not one business which is going through a major turmoil or anything. It's just that certain key activities like Farm on account of repo stoppage, Two-wheeler because of some challenges in certain states are the reasons why the credit costs have been slightly on the higher side. (The pain may be perceived in the context of current BAU credit cost versus prospective improved credit cost outcome that may be expected under 'Project Cyclops' in the Two-wheeler and Farm businesses)

Kunal Shah:

No, the reason was the repayment rate in Two-wheeler was quite high. If we look at it ₹ 2,400 Cr of disbursements and the portfolio staying flat, so that suggests a very high -- maybe the rundown rate. So just wanted to check, is it like a relatively higher credit cost and write-off in Two-wheeler which is particularly leading to that. Primarily, that was the question.

Sachinn Joshi:

That is not the case. The write-off has been -- as I mentioned across all the three, four products they are distributed. So, no specific major hit in one particular product.

Kunal Shah:

So, rundown could be on account of?

Sudipta Roy:

Yes, Kunal, if you would recall, we had started sort of the prime movement in Two-wheeler journey sometime last year, -- in September of last year when we started moving in towards the prime of Two-wheeler. So, actually some part of that, actually, if you look at our portfolio, 49% of our Two-wheeler portfolio is prime which is basically half of our Two-wheeler portfolio is now prime.

And on an incremental basis, as I said, in the month of January almost 75% of the through-the-door disbursement in Two-wheeler is prime. So around April and May we saw some spike in Two-wheeler delinquencies along with -- which is a contiguous product along the microfinance business, but we saw also stabilization of the same around August-September, we saw stabilization around the same. And the downward trajectory continues and which is also demonstrated by the portfolio bounce rate sort of indexed representation we have given in Slide 23. And we are very, very confident that whatever credit costs that we have seen happen in Q2 and Q3 in the Two-wheeler business will -- is on a sharp, downward trajectory over the next couple of quarters.

Sachinn Joshi:

Kunal, just to add, I was just looking at the numbers after you gave the breakup of Two-wheelers. What has happened, this was a festive quarter. And there is a trade advance book we -- usually advances are given to the dealers. So, there is a trade advance book which has reduced by ₹ 350 Cr close to. So that is one impact because of which you are seeing that. That is specifically for this quarter.

Kunal Shah:

Thanks. So that's perfect, yes. So, I think trade advances unwinding is leading to that. Thanks, and all the best.

Moderator:

Thank you. Next question comes from the line of Mahrukh Adajania with Nuvama. Please go ahead.

Mahrukh Adajania:

Hi, I had a question that lenders plus -- 3 plus lenders is around 7% and then 4 plus is around 2.5%?

Sudipta Roy:

2.5% is LTF plus 4, if we take the entire block LTF plus 4 up to whatever is the whole block is 4%.

Mahrukh Adajania:

Yes. So, if you just take LTF plus 4, which I guess is 2.5%, not 5, 6. And then if you take LTF plus 3 that's 7%. So basically, you have a gap of 5%-5.5% which we will have to convert by April 1. So, your call on peaking of credit cost is driven by the fact that this 5.5% will reduce to near zero or how do we think about it?

Sudipta Roy:

See, Mahrukh, on this you have to look at that, that it has been resolving itself quite well from 10% in quarter 1 FY25, it has come down to 7%. So, you can see that on an average, on a quarter basis, average has been 1.5% resolution on an average on a quarter basis. And the collection efficiency on this pool is also at 98.7%, the collection efficiency. The collection percentage efficiency is not extremely bad on this.

Now one of the things that we have to keep in mind that from April 1, the MFIN overall 2 lacs leverage guideline comes into play which has more of an impact on disbursement actually rather than an immediate follow through impact on repayment capability of the customer. So, what we expect is that this number which is there that 4% and that 2.5% to orderly wind down over the next couple of quarters. Anyway, we have pushed in about additional

900 collectors on the ground. And one of the focus of those additional 900 collectors is to focus on the geographies where collection intensity is needed. So that effort is already continuing and we are reasonably confident that this -- the 7% plus 2.5% number will be reasonably wound down over the next maybe max 2 to 2.5 quarters.

Mahrukh Adajania:

Got it. But basically if the run rate is 1.5% then it would require three quarters to wind down or it does not work that arithmetic?

Sudipta Roy:

See one of the things that, Mahrukh, you have to keep in mind that the entire portfolio is not bad. The 7% portfolio as a 98.7% is close to 99% collection efficiency. So, a majority of the part of the portfolio is good. So, there is -- we need not panic on the portfolio that is good. A small part of the portfolio has stress and the focus should be on that small part of the portfolio.

Mahrukh Adajania:

Got it. Okay. Makes sense. And then just one clarification on the SR provision. So, the reversal and the additional provision that accounting is done through the same line of provision?

Sudipta Roy:

Yes. That's right.

Mahrukh Adajania:

Thank You.

Moderator:

Thank you. Next question comes from the line of Saurabh Kumar with JP Morgan. Please go ahead.

Saurabh Kumar:

Sir, just two questions. One is on the microfinance portfolio. Number one, what's the write-off policy and just in terms of number of customers, what will be the collection efficiency like how many of your customers are fully paying right now?

Sachinn Joshi:

On the first part, like I mentioned earlier when a question was being asked. So, write-off policy, actually once any asset is fully provided to the extent of 100%, it is -- it qualifies for a write-off and the write-off is more like a technical write-off for us because after the write-off also the efforts do not come down.

The write-off policy, specifically on micro loans, the provisioning of 100% is the moment it crosses 90 DPD. For all the other products, it all depends on the ECL model has been built in where the 100% provisioning happens based on a particular DPD. The actual write-off in the book happens basically the finance takes a call on when the technical write-off has to be done in the books like I mentioned earlier also. But the effort on account of write-off should not be linked to the fact that we will stop pursuing those customers in terms of collection. So, we also have reasonable collections happening out of the assets which have been written off.

Saurabh Kumar:

So, if you can just detail, sir, micro finance is of 90 days 100%, where will personal loans and where will Two-wheelers be to reach 100%?

Sachinn Joshi:

Sorry, can you repeat that?

Saurabh Kumar:

Microfinance, you provide 100% at 90 days. When do you provide 100% on PL and on Two-wheelers?

Sachinn Joshi:

No, that's the ECL model. So, it's pretty -- it takes -- I will have to check on that. On the other piece which you talked about, whether it really is relevant on counts it's not relevant. What is important is actually how is the customer levered and that we have already shared. During our Digital Day also we clearly mentioned the portfolio that we have how levered it is. Ours is the least levered book that we have.

Saurabh Kumar:

Sir, my related question was your fee includes over dues. So basically, what I was trying to get is, essentially, all the customers which are paying on time, so the balance will be basically part paying or non-paying and that basically creates your overdue risk. So, I just wanted to know if your collection efficiency is 99%. In terms of customers, how much will it be? Is it 97%? Is it 98%?

Sudipta Roy:

Yes. So, in terms of collection efficiency first it does not include over dues. We report zero DPD collection efficiency. And in terms of the number of customers, it is 99.22% is correct.

Saurabh Kumar:

And including over dues?

Sudipta Roy:

Yes, 99.22% and they are number of customers.

Saurabh Kumar:

All right.

Moderator:

Thank you. Next question comes from the line of Nischint Chawathe with Kotak Institutional Equities. Please go ahead.

Nischint Chawathe:

Thanks for taking my question. One was on project Cyclops. You said that Cyclops is implemented in Two-wheelers and we are now looking at implementing it in personal loans and SME. So, I mean, I was just curious why would you sort of scale up the book just as yet. You probably implement Cyclops and then kind of scale it up?

Sudipta Roy:

So just to think, Cyclops we have already implemented in Two-wheeler 100%. And in tractor it is implemented. It is live. We are scaling up the number of dealer coverage slowly. The SME and personal loans we are at advanced stage, it's a stage of readiness to deploy. And the current sourcing that we are doing, we are very confident of the current quality of sourcing. We're only doing absolutely super-prime salaried customers where the net non-starter number is as low as 40 basis points. So, this is not the number that we normally give out, but I'm giving out the number because you asked the question. In December on our new salaried sourcing, our net non-starter number was only 40 basis points.

Nischint Chawathe:

So, does it mean that after implementing Cyclops, you'll probably go towards slightly one segment lower or something of that sort?

Sudipta Roy:

No. See the thing is that - see Cyclops is designed in such a way that it targets a target PD. So, once we put the PD then the customers who qualify in the portfolio mix towards that PD is only what will go through. We are at any point in time not saying that it will help us go towards a more riskier mix. So that is not the -- in fact, one of our guiding principles of our personal loans business is that we will do our personal loans business with a majority salaried profile. That will be the profile of our personal loan business.

Cyclops helps us to sharpen the credit outcome in that segment even further. Cyclops, I'll tell you in terms of it's -- the maximum benefit for Cyclops will come in case of our Two-wheeler business and the Farm business and the SME business primarily because this business has a large content of customers who are new to credit and large customers of content who are thin bureau. So, the way the Cyclops is constructed, it helps actually underwrite NTC and thin bureau much better. Whereas in personal loans we are actually going for customers with a little thicker bureau track. So probably the alpha on Cyclops in personal loans will probably be of an order of magnitude slightly lower than that we are seeing in the Two-wheeler business or in the Farm business. So, on the personal loan business, it's age-old experience that is driving the current sort of growth momentum. And though on a percentage basis again I'm repeating myself though on a percentage basis the number might look large, but on a real absolute amount basis ₹ 550 Cr of qualified salaried personal loans a month is not really a very large number.

Nischint Chawathe:

Got it. I mean, since we are on this maybe as a one-off, can you share the yield and ticket size in personal loan segment?

Sudipta Roy:

Average ticket in personal loan is just ₹ 2.5 lacs and the average yield is about 17% on it.

Nischint Chawathe:

Got it. Just one more curious thing, any specific reason for change in Chief Risk Officer?

Sachinn Joshi:

Actually, we have already put the...

Sudipta Roy:

So, the departure of the -- for better opportunities necessitated his change.

Nischint Chawathe:

Got it. And just one last data keeping question. You mentioned that you added 900 collection officers in the micro loans business. So, what is the aggregate number as we speak?

Sudipta Roy:

In micro loans business the guy who sells is the guy who collects. Overall, just a second I'll take overall everyone is a collector and everyone sells, but specifically in terms of collection it will be about 2,500 people. So, there are two things. In our micro loans business, we have the normal regular 1,200 -- for collections, 1,200 additional for collections.

Nischint Chawathe:

Got it. So basically we have the normal kind of microfinance employees who are collecting. In addition to that, you have...

Sudipta Roy:

It's a hard bucket collection team.

Nischint Chawathe:

That's around 1,200 which we have put up for the first time?

Sudipta Roy:

That's right. We have added to it. We had it, we have added to it.

Nischint Chawathe:

No, that's what I'm saying. How much did you have and how much have you added that was my question?

Sudipta Roy:

So, overall addition of people in the micro finance team has been about 900. Now some of them have been deployed in the regular course of work. Some of them have been added to the hard bucket collections team. The reason, for example, let's take this example. In a micro -- in a meeting center you currently have five people. These five people are servicing 1,000 accounts. So, on average, accounts per collector is 200. We wanted to bring down the accounts per collector in a meeting center. So, what we did is with the 900 people that we added, some portion of the 900 people went to our regular meeting centers such that our accounts per collector have come down. Our account per collector came down from 560 to 480. And a small portion of the 900 was deployed to the hard collections bucket team. Is my answer understood?

Nischint Chawathe:

I think this helps. Yes. Perfect. I think we understand the magnitude of how people have been deployed. Thank you very much.

Moderator:

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

Abhijit Tibrewal:

So, my most questions have been answered. Just 2 questions that I had. First thing is, Sudipta sir, in MFI so what we have put out in our presentation, your peak credit costs are likely going to come in 4Q. So, first thing is, can you explain why is that? Now why I ask this is, what you have said, if you actually provide 100% on MFI loans after their 90 DPD and maybe technically write them off, and if your collection efficiencies are incrementally getting better in December and January, then why is it that our peak credit cost should come in the fourth quarter?

Sachinn Joshi:

Abhijit, let me take this. So usually, the credit cost comes with a lag of a quarter, because whatever the -- we have already disclosed the collection efficiencies, the way they panned out in October, November and December. From 99.43%, it came down to 99.26%, finally it ended with 99.39% in December.

So, when the collection efficiency comes down, which was the case for 2 months, October and November, there will be roll forwards, which will actually keep happening. And also the roll forwards happening out of the previous quarter customers. So whatever roll forward finally happen, net of the collections, because the collection effort is still on, right, those will ultimately lead to a credit cost panning out, because the moment these customers move to 90-plus bucket, we will have to start providing for. So, as we are seeing a sign that December has actually improved vis-a-vis November, we have said that there is -- we believe that what may happen assuming that this trend continues in Jan, Feb and March, the collection efficiencies as they start improving, the roll forward will slow down. And hence in the first quarter of next financial year, the roll forward will slow down compared to quarter 4. So, on relative terms, we have mentioned that quarter 4 may turn out to be the highest in terms of the credit cost.

Sudipta Roy:

Yes. So, the vintage flows tend to get bunched up, because you have stabilization efforts continuously going on. And then so some customers get stabilized, some customers roll forward for 1 month and then roll back. So, this process continues. And typically, what happens in retail portfolios, most of this, when the deceleration starts within a period of time, they tend to get bunched up at one particular point of time where across a couple of months, you see high credit costs and then the curve shoots downwards. We expect that the peak of this curve will happen sometime between January, February and March, and that is why the advanced estimate of macro utilization that we have given for Q4.

Sachinn Joshi:

So, Abhijit just one more piece. We are all aware of the one more guardrail, which is to be implemented by MFIN, which will be effective 1st of April. We will have this, and this is going to be across the industry. We already responded to one of the questions earlier that we will have to wait and watch how this guardrail impacts at -- because the impact is going to be across the whole customer base in the industry. So, we'll have to wait and watch on that. Again, the players who have least levered customers will be benefiting out of this compared to customer -- companies who have high levered customers in respective buckets that we have shared in our presentation. So, we will have to see what will be the impact of that. But barring that, if the trend continues, if the December trend continues into Jan, Feb, March, then what we mentioned would prevail.

Abhijit Tibrewal:

Got it. And just a follow-up on that, given that we are still looking forward to this MFIN guardrail implementation from April and whatever you just highlighted, can there be a scenario that this MFI stress or MFI credit cost, which we think will peak out for us in 4Q, can spill over to the next financial year as well?

Sachinn Joshi:

So see, the guardrail initially was supposed to be implemented from 1st of January. So, pushing it to 1st of April is going to only support all the industry players, and it will also help customers figure out ways and means of making repayments and getting alternate sources available.

Sudipta Roy:

Yes. So let me add to that. See, we can't crystal ball gaze as to what will happen. But the fact is that given the fact that in general, the Kharif arrivals have been good, there is reasonable amount of liquidity which is building up. The Rabi sowing has been very, very good. So, we expect that in month of March and April, when the Rabi crop comes, it will also be reasonably good, which will -- augurs well for the liquidity.

We expect that there will be a soft landing, but we will have to wait and watch. As Sachinn said, the players with the better franchises will benefit because they have the non-levered customer. So, the disbursement impact on repeats, etc., will not be impacted that much, especially for their exclusive customers. And I would like to point out that we have a very high proportion of exclusive customers our Pragati customers. Who are again relatively non-levered. So, we are hopeful that the entire industry will have a soft landing post April and -- but we'll have to see how it pans out.

Abhijit Tibrewal:

Got it. And just one last question. Because you just mentioned the better franchises. So just trying to understand in the past, even in our presentation, we have called out that we picked up this leveraging early and which is where maybe we slowed down or maybe we didn't go after leveraged customers? Just trying to understand, I mean, over the course of these last 6-9 months, have you had a chance to understand if our model in rural business finance or MFI, is it different from the other peers, which has helped us deliver better asset quality outcomes than the industry?

Sudipta Roy:

See, I think I cannot comment on what others have. But I will say some of the underpinnings of discipline that we follow and which obviously is up to the investor and analysts community to analyze and benchmark with others. One of the things that we do is that, obviously, we do not rely on third-party origination of MFI loans. All our MFI loans and JLG loans are originated by our own people. We have a very close connect with the village distribution that are on ground. The second thing which we have is that obviously, we have a very, very tight leverage. And as I've told earlier, from January itself, we started tightening our leverage conditions and started letting go off some portion of the repeat. The last thing is -- third thing is that we have a very strong RCU network and a branch process vertical who goes and every loan that the field level process books, there is a second level check. And out of the second level check, there's a sample of third-level check. So actually, it almost goes through a 3-level check before the loan is granted.

The second thing is that some of the discipline that we have been following for many, many years, for example, if a particular meeting center dips below 98% collection efficiency, we immediately stop disbursement there and focus collection there. Now this is a hard guardrail. That means in a meeting center if collection efficiency were to drop between 98%, the app freezes for those field-level officers. Even if they want, they can't onboard a single loan in that particular meeting center. And then the focus entirely shifts towards collections.

And last but not the least, we have extensive data analytics for geo selection and expansion. We only go in areas where we think has got less non-levered customers wherein, we can get non-leverage customers onboard.

So -- and the last thing is that we also, because we understood that the industry was getting slightly leveraged, we said that we will invest in a channel that gets non-leveraged and fresh customers, which we call our FSO channel or Fresh Sourcing Officer channel. Now we have reasonable amount of people in about -- approximately 1,000 people, give or take a couple of 50 or 100 here and there. We have approximately 1,000 people which we call fresh sourcing officers whose only job is to get fresh loan non-leveraged customers and to get into villages that are non-penetrated.

So, in a way, the business has been structurally designed to go after non-leveraged customers. And wherever there has been instance of leverage, the business has been structurally designed to take a pause before business starts again. This provides an automatic inbuilt what I call a speed governor mechanism, right, wherein you are not allowed to speed up in an area where you have sort of worrying asset quality, whereas in areas where you have rather non-leveraged assets or opportunities sitting, the organization is designed to speed up on that areas, albeit safely. So in a way, it is for the entire investor analyst community to benchmark and see whether this sort of practices of ours has helped us sort of keep us relatively in a straight path during this trying period. And only time will tell as to who are the ones who have better franchises and who are the ones who do not have.

Abhijit Tibrewal:

Got it. Thank you for the detailed answer. Thank you and wish you and your team the very best.

Moderator:

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

Chintan Shah:

Congrats on good set of numbers. So firstly, just continuing on the insurance piece. I think we mentioned we increased the share of insurance in the overall income. So currently, what would be the total percentage of insurance income in the total fee income pool?

Sudipta Roy:

Can I have that number? I don't have this. Just give us a couple of seconds. Do you have -- if you can give us -- I don't have the number handy instantly, so...

Chintan Shah:

Sure. And sir, on the margins front...

Sudipta Roy:

Insurance fee -- insurance as a percentage of average book would be about -- roughly average over the last 3 quarters would be about 1%.

Chintan Shah:

1%?

Sudipta Roy:

Yes.

Chintan Shah:

Okay. Sure. And sir, on the margins front, I think we mentioned, given the rate cut, there would be some benefit flowing over there. So, in terms of our fixed book also largely what percentage of the book would be fixed in nature?

Sudipta Roy:

Entirely almost.

Sachinn Joshi:

Yes, except for home loan, all the other pieces will be fixed.

Chintan Shah:

Sure. And also, on the PL part, I think you mentioned we have an average ticket size of ₹ 2,50,000 and a yield of 17%. And so what would be the tenure -- your average tenure also for these loans typically?

Sudipta Roy:

About 30 months. See, we are in the business of prime PL. We do not do STPL or anything like that. Absolute prime salaried PL.

Chintan Shah:

Sure. And sir, just lastly, to dwell up on the RoA piece again. So, I think for quarter, we reported 2.3% and we are gradually looking at 2.8% to 3%. So given that our yields will contract and similarly, the credit cost or opex would contract and resultant benefit on RoA. So how does that RoA move from 2.3% to 2.8%? So, more benefits come from the income piece or the opex piece? And on the leverage, then what would be the optimal leverage that we would be targeting?

Sachinn Joshi:

Chintan, I think it's slightly premature talking about because these couple of quarters are an aberration. We have spoken earlier about the RoA trajectory that we wanted to move on. Now there is some shift which is happening. There is some impact, specifically which has come up. So, I think 2 to 3 quarters, you will have to live with this aberration, which would mean, as I mentioned earlier, the 2.8% to 3% is what our targeted RoA. Now this was part of our Lakshya'26 strategy. If there are going to be a few challenging quarters, maybe it will move in a couple of quarters down the line. But directionally, we still want to achieve that. We will be working -- as I mentioned, we will be working on the business plan for the next financial year and also a long-term plan for the next 5 years. If there is a change in this, as part of those discussions, we'll come back. But at this point of time, we are still fixated on the fact that 2.8% to 3% is directionally what we are looking at. It may just -- if there are a couple of quarters which are challenging, it may just move ahead by a couple of quarters. That's it.

Chintan Shah:

So that is helpful. And just last thing on the leverage part. So, what could be the optimum or best leverage we could be looking at?

Sachinn Joshi:

Debt equity of 5:1 is what we would like to be at. But there is -- we are right now at 3.4. So as a AAA, I don't think we would want to go beyond that at this point and the leverage will be 6 then.

Chintan Shah:

So that is very helpful. Yes and that's it from my side. Thank you and all the best.

Sudipta Roy:

Thank you.

Moderator:

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

Abhishek Murarka:

Congratulations for the performance. So just in terms of markers, trying to look at all the conversation that has happened so far, looks like GS2, at least Gross Stage 2, that should start showing improvement or at least that should not increase going forward, right? Because GS3 might go up or write-offs might go up, but forward flows into GS2 should not happen? And also looking at your net non-starters and the bounce rate you have shared for Two-wheeler, Farm, it looks like things should improve there. So ideally, GS2 should not increase from here. Is that a correct understanding?

Sachinn Joshi:

See it will all depend on -- specifically for micro loan, as we mentioned, that we have seen some green shoot. We have seen some improvement coming up in December, right? But I think we have to wait for a couple of months more to see whether directionally it is panning out. So, at this point of time, we would not really want to commit that Stage 2, nothing will be there because there are various businesses and all these businesses are in sort of in a transition. So there is part of the book, which has moved towards prime. There is part of the book, which is still from the earlier -- before the strategy was changed. So at this point of time, I would just like in case you are asking this question from modeling point of view, I would say that you should continue holding on to the assumptions because we will still need some kind of visibility coming out of this challenging time, which I think is 1 or 2 quarters away, post which we will be more -- we can possibly talk more firmly on how stage 1, stage 2, stage 3 would really pan out. But we believe the credit cost and all would be in line with the last 1 or 2 quarters.

Abhishek Murarka:

Okay. No, I was just trying to understand the direction of NPA and therefore credit cost to try and understand why it would remain elevated for 2 quarters when you're showing good numbers on bounce rate and maybe...

Sachinn Joshi:

Yes, because the seasoning takes time, the Two-wheeler and Farm, as Sudipta mentioned, only the Two-wheeler book, and that too over a period of a few quarters has moved from 0 to almost 100% over on Cyclops. Farm, we have just begun. We are yet to start off on the PL. So -- and then SME.

So, till the time this whole transition does not happen, you will -- we cannot pinpoint at this particular quarter. It will be business by business, right? Maybe 1 year down the line, once every product moves on to Cyclops, then we will be able to say firmly that, yes, now the transition has been over and the credit cost now will follow a particular trend. But until that time, I think -- and then we also have a challenging time on the micro loan front, where we have a ₹ 26,000 Cr book. So, I think all these factors are leading to a situation where it will be difficult to specifically say the challenging time will -- on the other businesses, the credit cost has been slightly elevated for various reasons pointed out earlier. So, I think you need to give us a couple of quarters, and then you should start seeing. So H2, which is quarter 3 onwards, you will start seeing the impact of Cyclops in terms of the benefit, which flows on to the credit cost line.

Sudipta Roy:

Yes. See Abhishek, what I would like to add to what Sachinn said is that all the leading indicators of the work that we have been doing are looking good. So, we are satisfied with all the leading indicators. And we have put certain indexed representation of some of the leading indicators in the analyst deck. As I said earlier, the portfolio washout and replacement or the replenishment of the portfolio with better credit fundamentals takes -- typically takes a couple of quarters, couple of quarters means 4 quarters to 6 quarters. So obviously, we are about 3 quarters into the journey. It will take for another 2 quarters to 3 quarters for the full -- some headline impact to be start being visible, which as Sachinn said, takes us to about latter part of Q2, early Q3 of FY26, right, when you will start seeing the real impact of that.

The current macro situation does not help us also. Because the current macro situation makes us also sort of adds a lot of noise into whatever we are seeing. So, I would like to add to what Sachinn said is that for us, this is a marathon journey. It's not a sprint. And we are very satisfied with the progress that we have made on the journey.

The building blocks are more or less in place. What we are doing is that now we have a process of optimizing those building blocks, which have been put into place. So, my only request would be that we should be a little patient and give us a couple of more quarters for that benefit to build out in terms of numbers.

Moderator:

Thank you. Next question comes from the line of Subramanian Iyer with Morgan Stanley. Please go ahead.

Subramanian Iyer:

So, on micro loans, you have given a lot of texture on asset quality and that there are a few imponderables. But I had a question on micro loans beyond this current asset quality cycle. So how are you looking at loan growth structurally? I mean, because of the changes happening at an industry level, do you see that loan growth here is going to be structurally lower than what it used to be in the past? And also are you expected to reduce loan yields, given that the regulator has also been making comments on this all through last year? So essentially, looking at structural growth and profitability beyond this current cycle, your thoughts?

Sudipta Roy:

Thanks. One of the things is that I do believe that -- this is a business -- this is my personal opinion, industry opinion might vary. My personal opinion is that the safe speed of this business is anywhere between 15% to 20%, not more than that. So, the industry probably for the last couple of years have been driving this business at 40%-plus growth rate, which obviously has led to some -- is sort of part contributor into this asset quality sort of challenge that we are seeing in this.

So, I do believe that after the MFIN guardrails come into being from -- full MFIN guardrails come into being from April, the industry structurally will have to adjust itself to, if I were to use the old English proverb cutting the coat according to the cloth, which will mean somewhere between a 15% to 20% growth rate on an annualized basis. And I think that's a safe growth rate. So, I do believe that in the longer term, this industry will settle between this growth rates.

The second thing, which I think is on the yield side, we have already sort of tampered down some of our yields. And if you go to our website, our yield differential is from 16% to 23%. The absolutely credit qualified fourth cycle customer, non-leveraged fourth cycle customer end up getting a low rate of 16%, whereas most of the new customers coming into the fold will get a rate of 23%.

So, the average yield is closer to -- a little shade lower than 23% because we have a portfolio stock, etc., which is priced at 24%, which was our previous yield. Our average yield still remains high. But over a period in time, this is the sort of the interest range that the industry will move towards. So yes, so some of the super normal yields that we might have seen in certain sort of franchises, probably those will get tampered over a period of time.

Subramanian Iyer:

That was a very clear answer. Just one more question. What is your guidance or, say, your view on retail loan growth for you in FY26?

Sudipta Roy:

I can't really crystal ball gaze and say that what should be the retail loan growth. By Q4, we'll be able to -- see, we are guided by the Lakshya goals of 25% plus, etc. But again, what I have said is that we will exercise caution and wherever the risk required equation is not in our favor, we will choose caution over growth. This is a very clear philosophy that we are following, and we will follow this philosophy. So, what we will need to see is that how the collection efficiencies for all lines of business pan out in this quarter, Jan, Feb, March, which I think will be a quarter of stabilization for the entire industry. And probably a much more clearer guidance is probably we should be able to give in some time at the end of Q4.

Sachinn Joshi:

Yes, I think we should be -- we would have by now -- by then finalized the business plan as well.

Sudipta Roy:

Yes, finalize the business plan as well.

Sachinn Joshi:

And also the growth rate would differ depending on the business we are in. For example, personal loan, SME are younger businesses will grow at a much larger pace, whereas the mature businesses will grow perhaps at similar lines, barring MFI which is one piece, which we will have to look and figure out what kind of growth we can consider. We need some more clarity on that.

Subramanian Iyer:

Thanks so much and wish you all the best.

Moderator:

Thank you. Next question comes from the line of Wuzmal Handu with Goldman Sachs. Please go ahead.

Wuzmal Handu:

Just one question from my end. You spoke about the near-term pressure on NIMs + Fees on account of the change in mix that you see right now. Just wanted to gauge your thoughts on when do you anticipate this trend would stabilize for your book? And then eventually, when do you potentially see operating leverage playing out?

Sachinn Joshi:

So NIMs + Fees already, we responded to this. I think depending on when the rural business loan piece actually stabilizes, which perhaps we believe that one more guardrail, which is being implemented by MFIN will come into play from 1st of April. So we still see 2 quarters to 3 quarters of turbulence at the market level, at the industry level. But we would like to state that we are still better off. So the impact may be lower is what we believe. We will have to wait and watch on this, because this is a large significant portfolio on our books, as well as the fact that we are moving more towards prime is also adding to the change that we anticipate on the NIMs + Fees, which may come slightly on the lower side. But that should actually get compensated or move then compensated by two things, one is the increasing productivity and the lower effort on collection cost, because that's a significant part of our operating expenses, as well as the reduction in the credit costs, which we hope will start getting factored into our P&L from H2 next financial year. So 2 quarters to 3 quarters is what we believe that we'll have to continue with this, and then we will start seeing the positive impact of it.

Wuzmal Handu:

Okay, thank you.

Moderator:

Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of question-and-answer session. I would now like to hand the conference over to Mr. Sudipta Roy for closing comments.

Sudipta Roy:

Thank you, everyone, and thank you for your participation. As I said earlier, us along with the entire industry, is going through a little bit of trying times, if I may use that word. But I think this is not very protracted like deep rally downturn that we might have seen earlier. I do believe that this particular downturn, especially for the overall industry, I'm not speaking only of the microfinance business, but speaking of other asset lines also, is a much shorter duration cycle that we might be seeing. And we remain hopeful that this shorter duration cycle will probably see a bottoming out sometime between quarter 1 and quarter 2 of next year. And then probably, because the deleveraging has happened quite a bit as per data available with us, so I do believe that things probably will get on to a normalized trajectory sometime at the end of quarter 2 or starting quarter 3 of next financial year.

So, with that in mind, we remain focused on building all our capabilities even while we are going through some of these sort of on-ground challenges. We have not stopped for a single day in sharpening our tools of execution such that when things become normal, we are able to rise much faster than others and take a share of the market opportunity, which is available, obviously, in a risk-calibrated fashion and deliver those returns for our shareholders.

So, thank you so much, and wish all of you a great quarter ahead.

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