February 1, 2024

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

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

**Symbol: L&TFH**

**Security Code No.: 533519**

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

**Sub: Transcript of investor(s) / analyst(s) meet – Q3FY2023-24 financial performance and strategy update**

Dear Sir / Madam,

Pursuant to Regulation 30 read with Para A of Part A of Schedule III of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the investor(s) / analyst(s) meet for Q3FY2023-24 financial performance and strategy update held on January 24, 2024.

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

We request you to take the aforesaid on records.

Thanking you,

Yours faithfully,

For **L&T Finance Holdings Limited**

APURVA NEERAJ RATHOD

Digitally signed by APURVA NEERAJ RATHOD
Date: 2024.02.01 18:31:55 +05'30'

**Apurva Rathod**
**Company Secretary and Compliance Officer**

Encl: As above

# L&T Finance Holdings Ltd.

## Q3 FY24 Earnings Call Transcript

## January 24, 2024

### 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 the L&T Finance Holdings Limited Q3FY24 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 touchtone phone. Please note that this conference is being recorded.

We have with us today, Mr. Sudipta Roy, the newly appointed Managing Director and CEO; Mr. Sachinn Joshi, Chief Financial Officer; and other members of the senior management team.

Before we proceed, as the standard disclaimer, no unpublished price-sensitive information will be shared during the call. Only public-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 While all efforts would be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call.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 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:**

Thank you. A very good morning to all of you. Before we start the call, I would like to wish you all a very happy and a prosperous new year on behalf of the entire leadership team at L&T Finance. I feel humbled to take over as the MD and CEO of this organization that has been nurtured by Mr. Dinanath Dubhashi for the last 8 years as MD and CEO, and I would like to thank Mr. Dubhashi for his significant contribution in transforming L&T Finance into a truly digitally powered retail NBFC, straddling the rural and urban ecosystem in the country.

I'd like to start this call by sharing our satisfaction about our Q3FY24 performance with all of you. I'm happy to share that once again, we have registered the highest ever quarterly disbursement, maintained expected margins and further reduced credit costs, thereby achieving a PAT of Rs. 640 Cr that translates into a 41% growth year-on-year. In line with what we have been communicating over the last few quarters, we continue to achieve and exceed the Lakshya 2026 targets well ahead of time and deliver consistent results quarter-on-quarter. This is an outcome of the strong execution engine 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.

Today's call is divided into 2 sections, which would be sequentially taken by myself and our CFO, Mr. Sachinn Joshi. Before getting into further details and presenting the highlights for the quarter, I would like to draw your attention to the 5 pillars of execution that we had detailed in our last analyst call, namely:

- Enhancing customer acquisition;
- Sharpening credit underwriting;
- Implementing a futuristic digital architecture;
- Heightened brand visibility; and lastly,
- Capability building

Over the course of the call, I will also speak about how we are further building our strength across the 5 pillars of execution to create a sustainable and predictable retail franchise, and Mr. Joshi will be talking about the overall business metrics and financial performance at length. With that, let me start with the highlights of the quarter and the strategic road map for L&T Finance going forward.

**Macro-economic outlook**

- As far as the global economy is concerned, majority of global forecasters expect global growth to remain rangebound or to slow further in 2024 on the back of persistently high interest rates, escalation of geopolitical conflicts, sluggish international trade, and climate-linked issues.
- The Indian economy will continue to remain as a bright spot in this environment with economic growth holding firm amid improved macro-financial stability. In fact, some of the leading rating agencies have forecasted India's average growth rate to be in the range of 6.5% to 6.7% till about FY27.
- During the quarter, a festival-led uptick in production across non-agricultural indicators and sustained deflation in commodity prices improved the overall production growth in Q3. Consumption sentiment remained stable among high income groups.
- As far as the outlook on Indian agriculture scenario is concerned, it is expected to record somewhat of a muted growth of approximately 1.8% in FY24, owing to elevated temperatures and patchy monsoon on account of the El Nino phenomenon. We are hopeful of a recovery in Q1FY25 on the back of an expected increase in rural outlay by the governments.
- On the policy rate change front, we expect the magnitude and timing of a policy rate change to be data dependent and carefully calibrated in line with the inflation trajectory of the Indian economy.

To conclude, the macroeconomic prospects for India appear to have brightened with a few caveats. However, we'll continue to track the progress granularly as we always do in the coming months and take business decisions judiciously.

**Completion of Merger culminating into a Single Operational Lending entity:**

We achieved a very important milestone for the organization this quarter. The subsidiaries of L&T Finance Holdings Ltd. namely, L&T Finance Ltd., L&T Infra Credit Ltd., and L&T Mutual Fund Trustee Ltd. were merged into L&T Finance Holdings Ltd. (LTFH).

With this merger, all the lending businesses have been housed under one entity i.e. L&T Finance Holdings Ltd. (LTFH), with it becoming the equity listed operating lending entity. Going forward, this single operational lending entity will be renamed as L&T Finance Limited, subject to the receipt of applicable statutory and regulatory approvals. I am happy to share that the merger was completed well before the envisaged time frame with all the necessary approvals in place. The single entity will lead to seamless corporate governance, increased operational efficiencies and synergies in treasury and liquidity management.

With the wholesale book going below the threshold level of 10% of the overall book size, time has now come to focus on consolidated numbers going forward to monitor our journey ahead till FY26. Thus, going forward we will only publish one consolidated financial performance summary of the entity in our financial reporting and investor presentation.

## Q3FY24 Highlights

Now I'll talk about the Q3FY24 highlights. Undoubtedly, the biggest and the most important highlight for this quarter is that we have achieved all our Lakshya 2026 targets in FY24 itself, almost 2 years in advance.

**Achieving the Lakshya goals 2 years in advance:**

Our Lakshya 2026 plan was to establish L&T Finance into a leading digitally enabled, customer-centric retail Fintech@Scale. We set four quantitative targets, and let's evaluate our performance against those goals in Q3FY24:

- The first milestone was achieving a Retailisation of > 80%. Against that, Retailisation stands at 91% at the end of this quarter, and we expect to maintain this positive trajectory going forward.

* The retail book growth target was set at a CAGR of 25%. Against this, we grew at 31% YoY this quarter, and this growth has been consistent.
* Thirdly, this Retailisation thrust had to be credit calibrated with the goal of retail GS3 below 3% and NS3 below 1%. We are happy to inform that the retail asset quality metrics are well within the Lakshya 2026 targets in this quarter with GS3 at 2.95% and NS3 at 0.64%.
* The fourth and the last milestone of achieving a retail ROA of 2.8% to 3% was already achieved in quarter 1 this financial year (3.08% in quarter 1 and 3.32% in quarter 2). This quarter, it has further improved to 3.37% and while we will only present consolidated numbers going forward, we thought that this is an important metric for this quarter to share with you in our journey of delivering on the Lakshya 2026 objectives.

Our persistent focus on execution and execution alone has made this performance possible. We were able to achieve this, thanks to the relentless efforts demonstrated by each and every colleague of L&T Finance and we all remain committed to a consistent performance trajectory going forward.

**5 execution pillars to create a sustainable and predictable Retail Franchise:**

On the investor call for Q2FY24, I had communicated in detail about the 5 vectors or pillars of execution for ensuring growth in a linear and sustained manner. I would like to give a brief update on what we have done across the 5 pillars.

1. **Customer Acquisition –** We are constantly focusing on broadening our customer funnel and working on both horizontal expansion and vertical penetration across all lines of our business. For instance, in Rural Group Loans and Micro Finance, while on one hand we are working on activating new villages where we do not have a presence in the geographies that we operate in, we are also parallelly working around vertically increasing the depth of our business in those villages where we already carry out our businesses. Acquisition strategies like this across products has resulted in disbursements to about 6.9 lakhs new customers in Q3FY24 against 6.5 lakhs new customers in Q2FY24.

2. **Sharpening Credit Underwriting -** We had talked about developing a dynamic credit engine that not only ingests bureau data, but also other alternate data based trust signals. We have started the journey of building this new credit engine and we will keep updating you on the progress as we move forward.

3. **Digital -** On the digital part, we have worked on revamping our digital journeys for Home loan product and SME product and are focusing on various platforms for these products for a smooth customer experience. As far as the PLANET app is concerned, we are leveraging the channel multifold by using it not only as a new customer acquisition platform but also for our repeat business, collections and most importantly, the servicing needs of our customers.

4. **Brand Visibility** has been an area on which we have been working in the past quarter. An array of marketing initiatives was undertaken in Q3FY24. We conducted product-specific marketing campaigns. For example, the multicity festive awareness campaigns for Two-wheeler finance and wall branding campaigns in rural geographies for our rural businesses. We also did an organization-wide marketing through brand awareness campaigns on Disney+Hotstar for Asia Cup and World Cup Cricket tournaments, print ads in leading newspapers and developing customer testimonial videos and participation at industry-specific events like RE Motoverse, Homethon, etc.

5. On **Capability Building**, we remain focused on our capability building agenda. Apropos to that, our newly created position of Chief Marketing Officer has been filled and we have strengthened the leadership bench below the business chief executives by adding experienced new leaders at key positions across major business lines. We also have added a seasoned technology professional as our new Chief Digital Officer and further expect to announce significant new hires in our digital and technology teams and other verticals shortly.

Going forward, the strategy would be to make our performance consistent, predictable and sustainable. It would revolve around sharpening or relaunching our existing product propositions and introducing contiguous product lines with a sharp focus on broadening our customer acquisition funnels while also harvesting our existing customer database of over 2.2 Cr customers. We'll constantly strive to reimagine and redraw various customer digital journeys to provide a superlative experience to our customers, sharpen our credit underwriting by bringing in new age insights into the underwriting models, while constantly strengthening brand L&T Finance and building new capabilities in the organization, both traditional and new age.

## Business Strengths

Now let me talk about the business strengths that we have steadily built in the last few years.

- **Deep pan India franchise:**

A diligently cultivated franchise is not a one-time activity but an ongoing effort that requires significant thought and strategy, put in place with the help of digital and data analytics. The optimal mix of a strong physical presence and preferred channel partners, coupled with leveraging our database of 2.2 Cr+ customers (of which about 1.5 Cr Rural and about 0.75 Cr Urban), has put in place a superior retail franchise capable of addressing evolving and ever-changing needs of the retail customer. While we disbursed about 6.9 lakhs new customers during the quarter, our active franchise stands at about 93 lakhs customers currently, in comparison to disbursement to about 6.5 lakhs new customers in the previous quarter and an active customer base of 90 lakhs in the previous quarter. Share of cross-sell as well as upsell in total disbursement stands at 33% in this quarter. The consistency of improvement in customer franchise numbers underscores the enduring strength of the franchise that our organization holds and we are proud to witness its continued success as a testament to our ongoing commitment and focus.

- **Fintech@Scale:**

Building a fintech@scale is just not about disbursing loans digitally, say through an app or a website. The essence of building a fintech in its truest sense is using tech heavily in each and every aspect of every line of business. And this has been our way of offering a one-stop solution to our customers. We not only prioritize the acquisition of new customers digitally, but also ensure long-term association, satisfaction, loyalty and sustained value realization as they navigate their financial interactions with us through our digital platforms. We have strived to use digital not only on the lending or collections side of the business, but also internally where our systems interact with each other. And to ensure that this particular trajectory is maintained, we are investing more and more to make this part of our ecosystem continuously responsive to our customer needs.

And also, if we talk about **Digital Finance Delivery** capabilities, we had highlighted earlier how we are developing digital finance delivery as a key customer value proposition. Apart from building 100% paperless journeys in Rural Business Finance, Farmer Finance, Two-wheeler and Personal Loans, we are also boosting our digital collection capabilities. In urban space, 94% of our urban collections happen completely digitally. And also, when we talk about rural collections (especially in the Rural Group Loans & Micro Finance and Farmer Finance), 19% of their collections were carried out digitally this quarter. Needless to say, efforts are on to increase this number gradually with increased awareness and adoption by our rural customers.

**PLANET:** Our D2C PLANET app will be completing two years, one month from now. Our plan of initially offering features addressing basic customer servicing needs, whilst we are now adding superior engagement features has worked wonders, giving tangible results. We have built autonomous journeys for our products (Personal Loan, Two-wheeler Loan, Rural Group Loans & Micro Finance and Farm Top-Up), and the app has crossed about 7.6 million downloads till date. With multiple servicing and engaging features already in place, we are in the process of adding more features to the app. A few journeys went live this quarter, and we are expecting conversions from those journeys in the coming months.

**Building Risk Capabilities with Digital:** Again, superior risk management aided by data accessibility and availability of tech tools is also an ongoing attempt. The work is happening on multiple fronts in order to create a digital fortress with a best-in-class infrastructure. And we are talking about a dynamic and a self-learning underwriting engine that we have already talked about previously. We are in the process of building it. And we will talk about it more in the coming quarters as and when we are in a position to deploy the new engine into production.

- **ESG@LTF:**

The last leg I would talk about is ESG. As one of the first NBFCs to embrace sustainability, our journey of creating a positive impact for the society started quite a while back. Consequently, L&T Finance has partnered with SABERA (which is Social and Business Enterprise Responsible Awards), as a 'Digital Sustainable NBFC partner' to recognize best practices in ESG and sustainable development initiatives by corporates, non-profits and individuals. We also won the award for the "Best Sustainable Initiative in Women Empowerment" at the "2nd India Sustainability Conclave and Awards" for the Digital Sakhi project, among many other notable achievements.

In conclusion, I would like to thank Mr. S.N. Subrahmanyan, the Chairman of L&T Finance Holdings Ltd., for entrusting me with this responsibility to lead L&T Finance in its next growth phase. I would also like to thank Mr. Dubhashi for his immense contribution for building L&T Finance into the organization it is today and also for facilitating the leadership transition in such a textbook fashion.

Additionally, I would like to thank the investor community for reposing their faith in us over the years, and we will endeavour to meet their expectation to the best of our abilities.

Now I'll hand over to Mr. Sachinn Joshi to take you through the financial updates for the quarter.

## Business as Usual updates:

Thank you, Sudipta, for the detailed highlights and your vision for L&T Finance. So let me begin with retail performance first.

**Retail Performance:**

- Retail NIM+fee, as we have seen over the last few quarters, has remained strong at 12.08%.
- We made again one more highest ever quarterly retail disbursement, Rs. 14,531 Cr. it's up 25% YoY basis.
- Our retail book has crossed a new milestone where it's about to reach Rs. 75,000 Cr. We were Rs. 74,759 Cr, up 31% year-on-year.
- Our ROAs, as Sudipta mentioned earlier, retail ROA stand at 3.37%. In Q2, it was 3.32%, so directionally going up.
- As far as asset quality is concerned, retail GS3 and NS3, they stand at 2.95% and 0.64%, respectively. So, in this case also, the goal of having GS3 less than 3% and NS3 less than 1% completely achieved in this quarter.

**Consolidated Performance:**

- On the consolidated performance, our PAT for the quarter is Rs. 640 Cr. It is up 41% year-on-year.
- Capital adequacy continues to remain strong at 24.93%.
- On the consolidated side, consolidated NIM+fee remains strong at 10.93%. Again, improving both sequentially and on a year-on-year basis.
- GS3 and NS3 at a consolidated level also have been directionally going down, 3.21% and 0.81%, respectively.
- Our credit cost has reduced on a YoY basis from 2.67% in Q3FY23 to 2.52% in Q3FY24
- Continued with our accelerated reduction in wholesale book with a steep reduction of Rs. 24,405 Cr

(it's down 78% year-on-year basis) and now the wholesale book stands at Rs. 7,020 Cr at the end of Q3FY24.

One more piece to highlight is that the profit before tax on a year-on-year basis is up 31% at Rs. 824 Cr. Previous year, the same amount was Rs. 632 Cr. Over the past two years since the launch of Lakshya 2026 strategy, we have always guided that our wholesale book will keep reducing gradually as per plan. The ROA at consolidated level will keep moving towards and converge with the retail ROAs. In line with this, after having achieved Lakshya 2026 goals two years in advance, we now set the bar higher to achieve Lakshya 2026 goals at a consolidated level.

With that aside, let me now quickly take a deep dive and give some specific updates.

**Retail Businesses:**

**Disbursements:** Retail disbursements in Q3FY24 stood at Rs. 14,531 Cr, 25% higher on a Y-o-Y basis. This has resulted in the retail book growing by 8% quarter-on-quarter. So sequential growth also we have seen as well as on a Y-o-Y basis, which is up 31%. Our overall retail mix has grown to 91%. It is up from 64% in Q3FY23 and 88% in Q2FY24.

- On the **Rural Business Finance**, the business has registered disbursements of close to Rs. 5,500 Cr, and the book size has crossed Rs. 23,000 Cr milestone at the end of third quarter. The monthly disbursal run rate has been maintained at about Rs. 1,800 Cr despite the festival period, which is considered to be a weak quarter, especially for this business.

- **Farmer Finance**, the disbursement stood at Rs. 2,027 Cr (previous quarter it was Rs. 1,534 Cr). Now this increase of Rs. 2,000 Cr disbursement has led to a book size growing to Rs. 13,845 Cr. On a Y-o-Y basis, it's an 11% increase that we have seen. And this is in spite of the fact that the industry has seen a degrowth of 5% during this quarter.

- On the **Urban Finance**, the segment which comprises of Two-wheeler, Personal Loans, Home Loans / LAP, also saw 18% Y-o-Y jump in the overall disbursements. This has led to an increase of 29% year-on-year as far as the overall urban book is concerned. To start with, I'll talk about Two-wheelers.
    - **Two-Wheelers:** The Two-wheeler business has registered highest ever disbursements of Rs. 2,540 Cr in the quarter, up from Rs. 1,817 Cr in the previous quarter. And the Two-wheeler book also has crossed Rs. 10,000 Cr milestone. It's close to Rs. 10,500 Cr. The book has grown 20% year-on-year.
    - **Personal Loans:** This business witnessed disbursements of about Rs. 850 Cr. Previous quarter, it was Rs. 1,300 Cr, and the book size stood at close to Rs. 6,500 Cr. The book overall has increased 36% year-on-year.
    - **Retail Housing:** On retail housing, it achieved highest-ever quarterly disbursements close to about Rs. 2,000 Cr. It is up 67% year-on-year. In the previous quarter, the same figure was Rs. 1,700 Cr. Book size with this increased disbursements stands at Rs. 16,650 Cr. It's an increase of about 33% on a year-on-year basis.
    - **SME Finance:** Talking about SME Finance, it was launched in Q3FY22. It has completed two years this quarter. Our Q3FY24 disbursement stood at Rs. 965 Cr. The month of December'23 also registered highest ever disbursements. We did Rs. 380 Cr in this month. In line with our strategy of maintaining optimal geo mix, we have launched 56 new locations in November, thereby taking the total location count to 109.

**Collections:** On the collections front, in fact, there is a slide that we have as part of our investor presentation. Our retail products experienced top-notch collections again in this quarter. And they are actually displayed along with stage-wise book for our retail products, which can be referred to by everyone.

**Wholesale Business:**

On the wholesale book, we continued our accelerated reduction in the wholesale book with a steep Y-o-Y reduction of Rs. 24,400 Cr. The book is down 78% year-on-year basis. And quarter-on-quarter, the reduction is close to Rs. 2,300 Cr. It's down 25%. With this reduction, the wholesale book now stands at Rs. 7,020 Cr at the end of third quarter.

I thank all of you for a patient hearing. We may open up for questions. Thank you.

**Moderator:**

We will now begin with the Q&A session. The first question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

**Digant Haria:**

Hi. Congrats Sudipta, on getting elevated to the position of MD. My question is, see in the last 3-4 quarters, our credit cost in the retail business have been hovering around that Rs. 500 Cr number or around 3% kind of a number. Do you think we have some more scope to reduce this number? Because if I individually look at how the CV -- how the tractor cycle is or the micro finance or the two-wheeler cycle is, it seems that there can be some improvement in this number going ahead. Any thoughts on this, Sudipta?

**Sudipta Roy:**

Yes. So, if you see -- Digant, first, thank you for your wishes. And if I look at the overall credit cost on our retail business, actually, on a percentage terms, it has been trending downwards. If you look at our credit cost for Q2FY24, it was about 2.74%, which has actually sequentially reduced to 2.61% this particular quarter.

But I do believe that credit cost is a particular line in which you can always do more work. And that is where we have been saying, and if you sort of refer back to my five pillars of execution, the second pillar is reducing -- continuously reducing credit cost. So, what -- we are actually investing heavily in this particular vertical in sort of building a next-gen credit engine.

And through-the-door customer acquisition which will mould the portfolio going forward and our existing portfolio, we will use this new credit engine sort of to normalize and try to see if we can further reduce costs either by making collections sharper or the through-the-door sort of the volume that comes in, it comes in with a far better credit quality. So, this is a continuous exercise, and we remain focused on that.

So, we remain hopeful that this particular sort of process that has been set in motion. And on an overall basis, also, we are trying to sort of trend the portfolio towards a little more towards prime. For example, in Two-wheelers also, focusing on a large amount of prime through-the-door acquisition while making sure that while we are focusing on prime through-the-door acquisition. And by prime, I mean prime by Bureau definition, which is Bureau score 750+ or asset sizes of above Rs 1.5 lakhs worth of vehicles. While we are taking our overall numbers up, we are also trying to make sure that our overall prime penetration also goes up.

So, it's a mix of a couple of things. It's a mix of making sure that our credit engines are using technology and a new generation sort of credit engine to administer credit, but also directionally push our distribution channels towards more prime in some of our lines of business, while continually strengthening our collections practices. So, I do believe that this is -- this will remain a work in progress, and we'll continuously strive to make our credit cost sort of trend downwards.

**Digant Haria:**

Got it. Great. Thanks, Sudipta, for this answer. So, second follow-up to this is, that see. If we move towards a better customer segment and a better credit engine both, then do we -- would we have some room to change our collection strategy as well? Because I think currently, we do have a lot of physical collection infrastructure also. And maybe those cash to NACH kind of convergence may still be happening within the organization. So, can there be some cost benefits also which come later on, once more and more portfolios is towards this newer customer segment and newer credit engine?

**Sudipta Roy:**

Absolutely. One of the – see couple of axes on which we are working, apart from working on a new credit engine, the other thrust has been improving our digital collection capabilities. Because both of these go hand-in-hand in reducing the ultimate collection cost. And with the penetration of digital payments in the country, we are seeing very healthy trends, especially from rural areas of customers who are hitherto use to paying in cash for many years are actually moving to sort of pay digitally.

So those sort of efforts remain in -- for example, we have been focusing very strongly on making sure, especially in a business like tractor, our e-NACH penetration per percentages or our through-the-door acquisitions go up with every month. Similarly, there is a large focus on our rural business customers to make sure that we introduce to them the methods of paying digitally and focus on doing that.

In fact, if you see in urban business, 94% of our collections are currently digital. In our rural business, about 19% of our collections are digital. So, this remains the progress area, and we are keeping on pushing on it. But also, what we have to keep in mind that on-ground collection strength is very, very important because we remain in an environment where economic shocks or a localized event might happen at any point in time.

We have to remain vigilant of that. So, a good amount of collections presence is always a prudent strategy to maintain continuously. So, it will be an optimization or the right optimum collections presence on ground as well as a continued focus on improving digital collections. So, we will keep on working on both these fronts.

**Digant Haria:**

All right. Thanks. And just on the rural collection, you said 19% are digital. To what extent can this number go? Like can it go as high as 50%, 60%, 70% also in the setup that we have and the setup that India is into?

**Sudipta Roy:**

See I think this is something which we're seeing gradually, with every passing quarter, the uptick is there. You have to understand that the major hurdle of your digital collections is basically the smartphone penetration. It is smartphone -- and there is -- when we travel around, we see that there's still a significant difference in smartphone penetration between the Southern states as well as the Northern states, especially like UP and Bihar, the smartphone penetration, especially among the women folk who are borrowing on the Rural Business Finance vertical, the smartphone penetration is less. But every quarter, this particular number is ticking upwards. So, I won't hazard a guess as to by what time we will get to about 50%, 60% sort of level. But I think we will get there sooner than later.

**Digant Haria:**

Perfect. Thank you so much. And all the best.

**Sudipta Roy:**

Thank you so much, Digant.

**Moderator:**

Thank you. The next question is from Hardik Shah from Goldman Sachs. Please go ahead.

**Hardik Shah:**

Hello, sir, congratulations on the quarter. My question is on the personal loans. I see lower disbursements in the quarter. Anything to read there? And has the pricing changed post the RBI announcement of increased risk weights?

**Sudipta Roy:**

Okay. So, on Personal Loans, what we are trying to build on is that, yes, I would agree that there has been a pause, I would sort of define it as a pause in Personal Loans disbursement this quarter compared to the previous quarter, is because we have been sort of optimizing some of our customer journeys. We have been sharpening the credit funnel. But also, we have been implementing some of the regulatory sort of items like video KYC, etc. So directionally, the number is less because many changes are happening on the funnel, and we were also – credit sharpening the funnel for our next growth sort of trajectory. So, this is -- as I would say, this is a temporary reorientation pause rather than anything else. And we will continue our growth trajectory starting this quarter.

**Hardik Shah:**

And has the pricing changed on the...

**Sudipta Roy:**

On the next part of the question. As of now, if you look at our cost of funds overall, they are quite stable. Between the last quarter and this quarter it has only gone up by about 2 basis points. However, because of the RBI guideline on RWA increase, etc, we expect that in our cost of funds, there will be some impact on our cost of funds. But our guesstimate is that it will be a difference -- the difference would be in the range of 10 to 12 basis points over the next 12-month timeframe. And also, I would like to also say that especially on our Personal Loans business, the credit quality remains good, and the collection sort of parameters that we have set, especially it remains excellent. So -- and we really -- we were not in that BNPL space, etc. So, we were in prime personal loans and of the normal personal loan ticket sizes. And we have used this quarter to sharpen the funnel and improve the digital journeys of this particular line of business.

**Hardik Shah:**

Understood. And sir, second question is on the credit cost. How do you expect that to trend from here on? And in the event of credit costs going upwards from here on how comfortable are you getting into provisions? And what is your strategy on overall PCR?

**Sudipta Roy:**

See, overall, we have given a guidance that our opex plus credit cost will range within a 7% sort of guidance. So, we remain committed to that particular guidance. As I sort of explained in my answer to Digant, that our whole focus is on building a sort of next gen credit risk engine. And we are being very extremely careful and conservative as we scale up our business.

So given the fact of the investments that we are doing in our credit risk engine and trying to build a new next gen framework, properly tested, make sure that our collections teams are capacitized and we use data more and more in our collections team, and overall, our shift towards prime in certain lines of business, we remain quite confident that we will be able to navigate within that 7% credit cost plus opex guidance that we have given going forward.

**Hardik Shah:**

Okay. Thank you, sir.

**Sudipta Roy:**

Thank you, so much.

**Moderator:**

Thank you. The next question is from Avinash Singh from Emkay Global. Please go ahead.

**Avinash Singh:**

Yes, hi. Good morning. Congrats, Sudipta. A couple of questions. Again, one update again repetitive on credit cost. So, I mean you operate into the segments like almost two-third of the book are in the segment and the rural micro, two-wheeler or farmer finance, that is perceived to be kind of cyclical and have a slightly higher credit cost. So even given info that, okay, you're building a mortgage book that would be close to one-third or one-fourth, your two-third or three-fourth of business is going to be in a segment that will be cyclical as like this year. So -- and so you have to be sort of a keep over the cycle kind of provisioning cost in mind.

In that context, I mean, do you see the current sort of credit cost -- outcome of benign cycle or you are comfortable that this kind of credit cost anywhere around 2.5% to 2.7% for the retail is going to be comfortable over the cycle. So that is one. And then follow-up would be more on sort of some data keeping question.

If you can provide some breakup of this quarter's credit cost in terms of standard asset provisioning, NPA provisioning as well as what is the sort of amount of write-offs. And secondly, if you can provide at a consol level, what's the Stage 2 asset? Because I can see that for retail and at a consol I guess Stage 3, but not the Stage 2? Thanks.

**Sudipta Roy:**

Yes. So, I'll take your first question first. So, you need to understand that, yes -- and I'll take your first question to the fact that, yes, we agree that we are in businesses that are rural in nature. But what we also have to understand is that we have a decade-long experience in managing these businesses. And sort of the cumulative learning that the organization has, especially in all the states that we operate in. And at a village level, at a block level, at a taluka level, we know how the risk operates in that, we have a 10-year history of that particular geography. And our -- and the fact is that our collections discipline, it is very, very strong. And if you look at the -- our collections efficiency charts. For example, in our Rural Business Finance (RBF) businesses, we operate at collection efficiency, 0 DPD collection efficiency close to 99.7% to 99.8% in most markets.

So that way, between our understanding of the market, between our collections efficiency and again, because of the experience, our credit engines are also designed in a way to underwrite those customers. If you look at our approval rates, for example, in our RBF businesses, right. For every 100 customers applying, we only approve 45. We have approximately 45% approval rates. So that way, the through-the-door funnel is also very, very tight. And also, we have very strong credit monitoring as well as portfolio management practices. So yes, there is sort of at times the thought that in this business, you might have some localized event risk, right? But for that, we also have Rs. 1,200 Cr of macro provisions, which has been kept aside to deal with any of the sort of localized risk that might arise in the business.

But I'll again go back to what I answered in the previous two questions, is that though we have expertise, though we have a large track record, we are not resting on those laurels. We are trying to build a next gen credit risk engine for across all our lines of business, which will help us sort of to predict this risk better and sort of see even before hand even if -- and be sort of responsive to any sort of very minute leading indicators of sort of risk emanating.

Our teams are continuously on the ground. Our risk management teams are continuously on the ground traveling from location to location, trying to figure out whether there is any sort of semblance of risk that we might not be comfortable with emerging, and we immediately take action thereafter if we see any such sort of incidents or any hotspots developing.

So, it's a dynamic exercise. And we are continuously, as an organization, focused on it. So, we are confident that, as I said in the previous answer, that we have a guidance of 7% risk cost to opex trajectory, and we will try to sort of operate and navigate within that.

With regards to your second question, I think we have given detailed stage-wise separations in the Analyst Deck.

**Avinash Singh:**

That is not for consol? No, that is just for retail. I was asking consolidated, too?

**Sudipta Roy:**

So as of now, we have given for retail, right?

**Sachinn Joshi:**

But actually, consol does not make sense because retail is what ultimately we are...

**Sudipta Roy:**

We are 91% retail now.

**Avinash Singh:**

Okay. And if you can just sort of provide credit cost breakup in terms of standard asset provisioning, write-offs and NPA provisioning for the quarter.

**Sachinn Joshi:**

No, we do not provide that. But rest assured that with what Sudipta just mentioned, the overall credit cost quarter-on-quarter basis, you have seen the trajectory coming down. And number two, the macro prudential provisions, which are currently on Micro Loans, there is also an internal discussion that as we start growing in the retail space, we would possibly like to create this on the full unsecured book, as we progress into the future quarters. So, there will be sufficient conservatism that we have maintained till now and which we will continue with as we progress.

**Avinash Singh:**

Okay. And if you can just sort of tell what is the sort of security receipts that will be outstanding currently? And what kind of a timeline you would have sort of by time, I mean, the security receipts will be resolved fully -- I mean, whatever paid out or resolved?

**Sachinn Joshi:**

So, there is no additional impact this quarter. There has been only resolution which has happened. About Rs. 420 Cr of assets have got resolved from the overall security receipt value. It stands about Rs. 7,900 Cr roughly.

**Avinash Singh:**

Okay. And this will likely be resolved in next 2 years? I mean, because currently, they might be leading to a cost of maybe Rs. 120 Cr, Rs. 125 Cr annually, I mean, on that SR AMC fee. So, what...

**Sachinn Joshi:**

As mentioned in the previous call also, all these cases are in various stages of NCLT. And we believe that in next maybe 15 to 24 months, we will start seeing it coming down. In fact, this is the first quarter when we have already seen a resolution of Rs. 420 Cr. And depending on each case, where it stands, we will start seeing resolution.

**Avinash Singh:**

Okay. Thank you.

**Moderator:**

We take the next question from the line of Abhijit Tibrewal from Motilal Oswal.

**Abhijit Tibrewal:**

Yes. Good afternoon, everyone. Sir, 2 questions really. First one is a follow-up on the SR question that you answered. So, you said SRs on the balance sheet are about Rs. 7,900 Cr. These are the gross values of the SRs is what I presume or these are net SRs on the balance sheet?

**Sachinn Joshi:**

Okay. Let me just summarize this for you. If we look at the overall asset book that -- if you look at what was the original EAD at the time of sale, the overall book was about Rs. 19,000-odd Cr, out of which about Rs. 4,000 Cr have been received in cash, which -- and the provisions have been made to the extent of about Rs. 7,000-odd Cr. So roughly Rs. 15,000 Cr was the book, excluding the cash that was received, and on which Rs. 7,300 Cr of provisions have been made. So broadly, if you look at the book that we have currently, it is about 40% of the original value. So, 60% has been either received, money received in cash or provided for already as it stands today. And this has been fair valued.

**Abhijit Tibrewal:**

Okay. And like you said, I mean, this is expected to get resolved within the next 15 to 18 months?

**Sachinn Joshi:**

That's right. And if you recall, last year same time in Q3, we had also fair valued the whole asset book. And at that point of time, we had mentioned that whatever provisioning is required on the full wholesale book will be taken care of through the reduction in the fair valuation which was done. And we do not expect any incremental hits coming to the P&L for resolution of loans on the book or off the books, which are in the form of SR.

**Abhijit Tibrewal:**

Got it. And sir, my last question is for Sudipta, sir. Firstly, again congratulations for taking up -- officially taking up the role of MD, CEO of this franchise. I just wanted to understand since July to now, I mean, from what we understand, I mean, you travel very extensively and you've been looking very deeply at all the retail businesses that we have, we have a very wide product suite across micro finance, two-wheelers, tractors, consumer personal loans, home loans. So I mean which businesses, I mean, have you identified are maybe relatively weaker than the others in your product portfolio and will require some overhaul either from an underwriting or a collection perspective?

**Sudipta Roy:**

I would not say that any business is weaker or anything like that. There are businesses which are mature businesses and there are businesses which are developing businesses. There are businesses which are in the progress of scaling to the next level. I think we -- one of the realizations that I have had after sort of immersing myself deeply in all lines of business, is that we have excellent people, right, both in business and collections in all our lines of business, right? What we need to do from hereafter is, as I said, sharpen our credit underwriting, sharpen our digital funnels and making sure that the focus on new customer addition as well as cross-selling on our existing franchise is, that discipline is maintained. So -- and while we give them air power of brand marketing, etc., we give them the air cover of that. So that is what we have been putting the ball into motion in the last 6 months. And as I can see, it is gaining momentum across the full organization across all lines of business. And you will see us moving the needle forward, going forward quarter-on-quarter.

**Abhijit Tibrewal:**

Got it, sir. And maybe in the interest of time, just one last question, maybe a follow-up on something you've already answered on Personal Loans. So, I mean what we saw in this quarter in Personal Loans is only temporary or transitory because this quarter, the disbursements were a 7-quarter low. But like you suggested, I mean, you've been kind of spending more time in this business, whether it'd be becoming a regulatory compliant or kind of sharpening your credit funnel. So, I mean going forward, we should again see you kind of resume the growth trajectory in Consumer Loans as well?

**Sudipta Roy:**

Absolutely. So, in Personal Loans, this quarter, I would call a reorientation/pause quarter to make our system stronger, both from a business credit as well as a regulatory standpoint. And also, the customer experience standpoint on our digital funnel, right?

So, we already have resumed the growth trajectory, and you will see this business moving forward in the coming quarters. And I would say, in a risk-calibrated fashion, this is very, very important. This is something that we will not compromise on, right? So, we will grow this business in a risk-calibrated fashion.

**Moderator:**

The next question is from Mahrukh Adajania from Nuvama. Please go ahead.

**Mahrukh Adajania:**

Congratulations Sudipta sir. I had a few questions. On Housing, first of all. So, if you see most lenders who are into prime and above that ticket size lending have not seen any housing loan growth, so what are you competing for in Housing? What would your average ticket size be, first of all? And I mean, how competitive are your rates relative to others?

**Sudipta Roy:**

So, Mahrukh, our average ticket size for Housing is between Rs. 60 lakhs to Rs. 65 lakhs, which puts it almost in the prime category of housing loans. So, on Housing, we are focused as of now in two lines of business. One is business generated either through our builder tie-ups, etc. And the second thing is that where we go through our channel partners, or our channel team either digitally generates or through leads that we get organically. So that is sort of -- but we are focused on as of now in the prime and the near-prime segment in housing loans. And we are -- and as we have said, this is a line of business which we intend to grow going forward. And because -- this also provides a very large volume of low-risk ballast to entire retail book. In terms of our rates, because if you look at our cost of funds profile, we are able to sort of compete in the prime space there and sort of our rates are more or less comparable to most of the other banks or some of the leading NBFCs. So that way, we're able to compete.

If you see our top line numbers, our top line numbers are growing in a healthy fashion in this particular business quarter-on-quarter. And we remain focused on this business, and we are hopeful that over the next couple of quarters, we'll be able to grow this business even more strongly.

**Mahrukh Adajania:**

Right. Because overall, the sector is not seeing much growth. That is the reason why I was asking..

**Sudipta Roy:**

Yes. So, the fact is that there is a good amount of healthy sort of end user demand, which we are seeing in some markets. But again, if you look at our overall book size, our overall book size is not very significant as of now. So, objective for us now is to more sharply define our product proposition, make sure that our digital journeys are absolutely top-notch. And our servicing capabilities in this particular line of business are further improved.

So, our focus right now is to grow this business to a reasonable amount of scale while we optimize the digital delivery, we optimize the product proposition, as well as optimize the service channel. So that is what we are focused right now. And the amount of demand which is there in the market, is sufficient for us to grow.

**Mahrukh Adajania:**

Got it. And my next question is -- so you have kind of tightened the credit filters on Personal Loans. It's a temporary pause. You also mentioned something on regulatory compliance, which I didn't understand fully, but I'll come to that a bit later. But do you see yourself doing that in any of the other businesses? And I specifically ask on MFI, where your collection, rural and MFI put together, your collections are still monthly, whereas most players are on a much lower collection schedule and some of them are tightening. Those who are on monthly like Spandana are trying to progress to faster or quick or shorter duration collections, so?

**Sudipta Roy:**

Mahrukh, I'll take your first question on Personal Loans first in the sense that on the -- let me sort of clarify on the regulatory thing. The fact is that it's not any -- so we are actually implementing video KYC. So, video KYC is, obviously, an RBI's acceptable method of doing customer KYC. So, the entire video KYC stack actually had to be built and pushed into the system and then optimized, right?

So that was the only thing that I mentioned from, it's not that we are not compliant or anything like that. We're adding an additional KYC, digital KYC methodology, which is moving to 100% digital video KYC right now. So, there's no physical collection, etc. So, customers who come online or customers who are sort of even through our partner channels, if any customer comes, the only method of KYC is video KYC. So that is the only thing that we have sort of added in our Personal Loan business.

In terms of Micro Loans business, if you see our collection efficiencies are very strong, and our collection cycle are actually from the 1st to 12th of the month. So, the first 12 days of the month is spent on collections. So that way, we are almost spending almost half of the month in collections.

Other lenders, they follow different practices, fortnightly practices, weekly practices, etc. But we do believe that sort of front-ending the collections effort towards the beginning of the month gives us a lot of freedom to focus on business generation in the latter part of the month.

So, this is a model that we have been running for many, many years now, and it works really well. And as you can see, we have collection efficiencies of 99.7% to 99.8% in most of the markets. So, this is working well for us, and we intend to continue it.

**Mahrukh Adajania:**

Got it. And just 1 clarification. So, by how much have your Personal Loan disbursal rates moved up by? You said that your cost of funds has increased 10-12 basis points. You've been indicating that since the RBI circular. But so, your cost -- your yield on personal loan would have moved up by what range? Unsecured, I mean.

**Sudipta Roy:**

Yes. So, if you see Y-o-Y, it's about, yes, 1%, it's moved about 1%, right…

**Mahrukh Adajania:**

Okay. No, I mean new disbursals post the RBI circular?

**Sudipta Roy:**

We haven't made any -- see, as of now, our cost of funds, etc., hasn’t moved that significantly. It's been a little bit 2 basis points movement. So, if your question is whether we have gone and repriced our Personal Loan, as of now, we have not repriced our Personal Loans as of now, because the increase in cost of funds quarter-on-quarter for us has been about 2 basis points. But going forward, yes, we will reprice.

**Mahrukh Adajania:**

Okay. So that increase will be 30-35 basis points. How much will it be and by what time?

**Sudipta Roy:**

That is something that we will decide on the course of doing business. That is something which, unfortunately, I cannot give a guidance on the call. And so, it's dependent on multiplicity of factors. It's dependent on how the market has responded. It depends on how our competitors have moved their rates upwards and what is our sort of estimation of how much the conversion funnel will drop if I take the rate above a particular level. So, Mahrukh, it's -- fact is that right now, the rate is dependent also on the Bureau score, right? If you have a higher bureau score, your rate is lower. If you have slightly -- so most of our Personal Loans funnel operates on a risk-based funnel. So, it's not one uniform rate all over. But yes, if our overall input cost of funds goes up, our overall stock through the door, inward stock should see a rise in rate and that we will decide maybe over the next couple of months, right? As and when we know the -- we have a visibility of how our cost of funds is moving.

**Mahrukh Adajania:**

Okay. Thank you, so much. Thanks a lot.

**Sudipta Roy:**

Thanks, Mahrukh.

**Moderator:**

Thank you. The next question is from Kunal Shah from Citigroup. Please go ahead.

**Kunal Shah:**

Congratulations, Sudipta. So first, when we look at it in terms of yields. So, in fact, yields has moved up quarter-on-quarter. So, one would be obviously the mix shift towards Retail. But if we look at it in terms of the AUM growth this quarter, largely the AUM growth is led by the lesser yielding loans. So be it in terms of home loans, LAP, SME, acquired portfolio. So, then what is leading to this kind of an increase? Has there been any rate pass-ons in any of these segments which you would have seen?

**Sudipta Roy:**

So, see, most of our businesses have had a good disbursement trajectory over the last two quarters. Our Rural Business Finance business has had a strong disbursement trajectory over the last two quarters, our SME business… plus also, we -- the first obviously thing contributing is the change in retail mix. We are now 91%. So as and when we are becoming more retail, you will have higher yields.

Plus also, within our Retail mix also, our Rural Business Finance vertical has been doing quite well, and there have been strong and robust disbursement over the last two quarters. Our Two-wheeler business has been doing well. There has been strong disbursement over the last -- again, this quarter has been quite good for Two-wheelers. So overall, the buoyancy in disbursement, and the buoyancy in disbursement of some of our high-yielding products as well as the change in retail mix is overall contributing to the movement upwards of the yield.

**Kunal Shah:**

Okay. And secondly, if you can reconfirm Wholesale PAT. Should it be again the loss of Rs. 20-odd Cr and Retail being there at Rs. 660-odd Cr, given that you have shared 3.37% of ROA for retail business?

**Sudipta Roy:**

Yes, Sachinn will take this question.

**Sachinn Joshi:**

Yes, hi, Kunal. We had mentioned that the hit from the wholesale book overall will not exceed Rs. 50 Cr per quarter and a maximum of Rs. 200 Cr is what can be built up in any model. And as we start moving in more and more into Retail, you will start seeing -- in fact, this is the first quarter when we have said that let's stop looking at Retail and let's start looking at the consolidated financials and the ratios to be monitored, because I think the time has now come where we would like to take up that challenge of saying that this is the ROA, 2.53% is the ROA that we have. We would like to get into the trajectory of 2.8% to 3% over a period of time by FY26. Which means that directionally, we would want these numbers to keep moving up. And we are pretty confident, and that's the reason. I mean this is a quarter when we've just taken that call, that let’s stop looking at just the Retail numbers and start looking at, monitoring it and achieve that.

**Sudipta Roy:**

So, in addition to what Sachinn said, as I said during my call also, is that now we will move towards adopting the Lakshya goals for consolidated basis. So original goal was Retail ROA between 2.8% to 3%. We are adopting now consolidated ROA to move from 2.8% to 3%. And we are confident that exit FY26, we should be able to hit those numbers.

**Kunal Shah:**

Sure. And if I can squeeze in one more question. So one is, maybe when you look at it in terms of the overlay buffer, you said you will create on the entire unsecured. So now you will add another provisioning on the Rs. 6,500 Cr of Personal Loans. No other segments besides this. So, it will be an incremental provision on Personal Loans?

**Sachinn Joshi:**

Personal Loans and SME, both -- SME, Personal Loans and Rural Business Loans, these are the three businesses that are unsecured. As we had mentioned in our earlier calls, the unsecured to secured ratio will be about -- unsecured will be in the space of 45% to 50% because that's what the rating agencies are also comfortable with. So, over a period of time, as this mix starts coming up, start growing, it's not that we are going to do immediately in the next quarter. But directionally, we would like to ensure that we are conservative, and we create these buffers so that if there is any event-based challenge, which comes up, we are able to deal with it without any major impact to the P&L.

**Kunal Shah:**

Sure. Thanks. And all the best, yes.

**Sudipta Roy:**

Thank you, so much Kunal.

**Moderator:**

Thank you. The next question is from Viral Shah from IIFL. Please go ahead.

**Viral Shah:**

Yes. Hi, thank you for taking my question. And first of all, congratulations, Sudipta, on taking on this role and also on a good set of numbers. So, I had a few questions. So basically, first is on the consolidated book, while you are saying that we need to look at now on the consolidated P&L, wanted to check if going forward, if we can give also the breakup of the Stage 1, 2, 3 loans on a consolidated basis that will help us to get a better clarity on the entire P&L and the balance sheet piece. Just looking at it in the isolation on the P&L does not help.

**Sachinn Joshi:**

So Viral, if you look at the book itself, it's just down to Rs. 7,000 Cr, and it will come down below Rs. 5,000 Cr. All we can talk about on that book is that it's a standard book, and it has been. It's not that only the bad book has remained after the down selling. This book is a standard book. And we would not like to sell it down at throwaway prices very clearly. And that's why we said that we will -- our Retail mix will be -- the next target is to be more than 95%. And next year onwards, if at all the book remains, we will start showcasing, there will be a few accounts now, which will be left, just 3 to 4 accounts. So, we will have no qualms in terms of sharing that data with everyone. At this point of time, frankly, because we are moving into Retail, we thought it was advisable to just do the Stage 1, 2, 3, the wholesale book has been going down quarter-on-quarter.

Last year, same time, we were sitting on Rs. 35,000 Cr book. No point in showcasing stage-wise things when things are moving so rapidly. It gives the wrong picture. We thought that we will first do the accelerated sell-down. And once the book becomes stable, in case, suppose we are able to retain, say, Rs. 4,000 Cr to Rs. 5,000 Cr book, we may possibly look at sharing that.

**Viral Shah:**

Okay. The next question I had was on basically the risk-weighted asset growth. So, I'm looking at your Tier 1 in this quarter. And if I look at then the -- basis your net worth, the implied risk-weighted assets, there has been around 3.7% sequential increase in your risk-weighted assets, whereas your loan book has grown at 3.9%. So why would this be given that part of your book would have seen higher risk weights in this quarter?

**Sachinn Joshi:**

So, you're looking at the end of the quarter. So, there are two components to it. One is the profit gets added, okay? The capital is higher at the end of the quarter. Number two is the RBI circular impact was about 60 basis points, and that was only on one of the books, which is the Personal Loans. So, the overall impact was about Rs. 2,400 Cr book, I believe. It was not more than that. And so because the book has been -- certain specific books are growing, the CRAR requirement, if you look at between two quarters, it was about 23 basis points, if I'm not wrong, the reduction, which has happened. So, it's a mix of all these. One is the circular impact. The other is addition of the profit to the overall capital. And then the change in mix during the quarter.

**Sudipta Roy:**

This has gone down from 22.99% to 22.8%.

**Sachinn Joshi:**

Yes. So, in fact, Tier 1 has gone -- I was talking about the overall CRAR number. Tier 1 is 22.99% to 22.84%.

**Viral Shah:**

Got it. And just as a clarification. So, the Rural Business Finance book does not see higher risk weights given that it is not a MFI loan because historically, you have said that it does not qualify in the technical sense of RBI's definition. So, will that not see higher risk weight?

**Sachinn Joshi:**

So Rural Business Loans, each loan is given specifically for business purposes. The circular applies to loans which are -- especially on our book, it is applying to the Personal Loans, which are not specifically given for. So, end use is not mentioned as for personal purposes. So, till the time it is for consumer consumption, that is what will apply to this. All other loans which are given specifically for business purposes get out of it.

**Viral Shah:**

Got it. And the last question I had was on the collection efficiencies. So, while in the other segments, it's trending pretty good. In two specific segments, the Two-wheeler and the Consumer Loans or the Personal Loans. Over there, on a sequential basis, yes, the collection efficiencies is flattish. But if you look at it, say, on a Y-o-Y basis, it is still anywhere between 20 to 100 basis points lower. So why would this be?

**Sudipta Roy:**

See, on Personal Loans, if you look at -- actually, it's actually improved from 98 -- if you see, 98.3% at the end of September to about 98.7% in December. So, it's actually improved, right, collection efficiency for Personal Loans. And Two-wheelers, if you look at what it was in September, it was at 97.9% and gone up to about 98.4% in December. So, these are like -- we are trying to -- obviously, with every passing month, we are trying to improve our sort of efficiencies. And right now, from a trajectory basis from September to December, definitely on Two-wheeler, we are seeing an improvement in collection efficiencies.

**Viral Shah:**

Sorry. But actually, what you are referring to is the collection efficiencies for the month. If you look at it, say, for the whole quarter, I think it's kind of similar only quarter-on-quarter. But more importantly, on a Y-o-Y basis, it's still lower? Like, is there any trend that you are seeing? What is driving this?

**Sudipta Roy:**

There's no specific sort of risk pockets or anything that we are not seeing. You'll also have to be appreciative of the fact that between last year and this year, the book size also has grown. Our disbursements also have grown. And as I said, we are on Two-wheeler specifically. You will even recall what I said at the beginning of the call is that we are trying to push our through-the-door funnel towards more and more prime acquisition, right? This has been 750 Bureau score, or EVs or assets of ticket sizes greater than Rs 1.5 lakhs. So that is what we have been trying to do. And over the last three months, we have seen significant progress in that. And we are very confident that that will show up in improved quality, improved credit quality a couple of quarters from now.

**Moderator:**

Mr. Shah, I'm really sorry to interrupt but maybe request you to rejoin the queue as there are several other participants waiting for their call. Thank you.

**Viral Shah:**

Thank you.

**Moderator:**

We take the next question from the line of Shweta Daptardar from Elara. Please go ahead.

**Shweta Daptardar:**

Congratulations, sir, on assuming office at the helm and on a good quarter. Sir, I had a similar question as previous participant. So, on the Two-wheeler front, so while you mentioned that you're moving to the prime customer base, sir, what would be the urban-rural divide as in the prime and the rural customer divide? And what could be the NPA range on the Two-wheeler portfolio?

**Sudipta Roy:**

Shweta, we don't do much of rural Two-wheelers actually. Most of our Two-wheelers are urban and some parts semi-urban. So, we don't do much of rural Two-wheeler. So, I'm not sure whether I'll be able to give you a number there on rural.

**Shweta Daptardar:**

Okay. Sir, what could be the prime customer mix there on the Two-wheeler side?

**Sudipta Roy:**

Granularly, we have never given out what is the prime. And the fact is that it is something that we have just started over the last couple of quarters. But I'll sort of describe to you what are the sort of segments which are there, right? So basically, about anything above Rs 1.5 lakhs -- but yes, sorry, in our Investor deck, we have not given any such sort of breakup. But I'll give you what are the sort of markers we take.

The first marker is that income plus -- if you have an income above a particular threshold, which you fall into a particular prime category. If your CIBIL score is above 750, you fall into a prime category. If the asset size is greater than Rs 1.5 lakhs. Typically, what we are seeing is that if the asset size is more than Rs 1.5 lakhs, your loss rates are about half of through-the-door other categories. So that falls into our prime category. If someone is putting a higher loan-to-value. For example, if someone is putting in about 40% of own equity by buying a Two-wheeler, the loss rates of that category is much, much lower. So that also falls into our prime category by our definition. And also, if you look at the slide number 14 in the analyst presentation, there, we have given the prime customer share actually in the analyst deck. If you see, it has moved from 35% in Q3FY23 to about 41% in Q3FY24. So, there has been about a 6% move in prime. And if you see the majority of the move has happened after Q1FY24, where actually we have moved 5 percentage points in the last two quarters. I don't know whether you got that slide, it's slide number 14.

**Shweta Daptardar:**

Yes. I am on that slide, and this is helping. Just one bit there. So have the NPA trends, or is there a down trending of NPAs as on today, vis-à-vis, two years ago for us on Two-wheelers?

**Sudipta Roy:**

Sorry, the line was not clear. Can you repeat your question?

**Shweta Daptardar:**

Are NPA trends or are NPAs in Two-wheeler portfolio down trending, vis-à-vis, say, 2 years ago compared to what it is today?

**Sudipta Roy:**

Overall, I don't think we have given a NPA trend on our business-wise, we have not given. But overall Retail, you can see overall retail is improving and the focus is on improving the credit performance and the credit sort of profile of each and every line of our business. We are pushing equally on improving the credit profile of all of our lines of businesses. And one part of it is maintaining it, if you look at our -- if you look at our collection efficiencies on Two-wheelers, our collection efficiencies also have been holding, right? So that's what the entire focus is, to push the credit quality better and to make sure that your delinquencies sequentially goes further down.

And if you see our Stage 1 number, especially in Retail asset quality has actually been overall -- in spite of the overall book size growing, your Stage 1 has been going up continuously. So, the focus is on improving credit quality on every quarter through every initiative that we are taking.

**Shweta Daptardar:**

Okay. And just similar observation which was made earlier. So, in the home loan book, your annual growth has been north of 30%-35-odd-percent, vis-à-vis, slack – or slackness in the industry, which you already comprehensively addressed. So, can you just also highlight what are -- how are the distribution channels there? And what is our LTV?

**Sudipta Roy:**

So, our distribution channel...

**Shweta Daptardar:**

Distribution as in acquisition -- sorry, customer acquisition, say, from the parent or lead generations internally, something on those lines and your LTV?

**Sudipta Roy:**

So, distribution channel means origination channel for the loan? Sorry, I just needed the clarity.

**Shweta Daptardar:**

Yes, origination channel I meant. Yes.

**Sudipta Roy:**

Yes. So, the origination channel is basically DSA is one large origination channel. Builder, especially direct-builder tie-ups, or APF business is another origination channel. And the third origination channel is our digital/cross-sell channels. So, these are the three main origination channels. In terms of LTV for Loan Against Property, our LTVs are about 65%. And for Home Loan, our average LTV range between 75% to 80%.

**Sachinn Joshi:**

This is regulatory.

**Sudipta Roy:**

Yes, anyway it's regulatory.

**Shweta Daptardar:**

Sure, sir. That helped.

**Sudipta Roy:**

Thank you.

**Moderator:**

Thank you. The next question is from Saurabh Kumar from JPMorgan. Please go ahead.

**Saurabh Kumar:**

Sir, just 1 question. So, of the security receipts book of Rs. 19,000 Cr gross, what was the Real Estate contribution to this whole book? And of this Rs. 400 Cr recovery, what is the income you booked in the P&L? Thank you.

**Sachinn Joshi:**

So, income yields would be in the range of anywhere between 13% to 15% when we started, when we would have actually sanctioned these loans, those were the yields that we were getting. But once you actually sell it off to an ARC we cannot book any income.

**Saurabh Kumar:**

No, no, on the recovery, you would have booked, right, the Rs. 400 Cr?

**Sachinn Joshi:**

Recoveries, I mentioned about Rs. 4,000 Cr is what we recovered in terms of cash. So, the net book post recovery is about Rs. 15,000 Cr, and we have made overall provisions over the period of time.

**Saurabh Kumar:**

So, this quarter, you have added Rs. 400 Cr recovery, right? So how much got booked this quarter?

**Sachinn Joshi:**

Yes. So, this recovery is the -- along with interest and all it has come, about Rs. 420 Cr.

**Saurabh Kumar:**

Okay. So, it is part of your NII this Rs. 420 Cr?

**Sachinn Joshi:**

Yes, yes, it is part of that.

**Saurabh Kumar:**

Okay.

**Sachinn Joshi:**

No. One second. Rs. 420 Cr is not just interest, because it's also the principal which has been recovered.

**Saurabh Kumar:**

Yes. So how much has got booked in the P&L?

**Sachinn Joshi:**

It does not come in NII.

**Saurabh Kumar:**

Okay.

**Sachinn Joshi:**

Because it is an investment, right? So, the -- so we can possibly explain you offline.

**Saurabh Kumar:**

Okay. Got the piece. Okay. The second is, sir, of the Rs. 19,000 Cr, what is the total value of the Real Estate book of this Rs. 19,000 Cr?

**Sachinn Joshi:**

No, I won't have that number. Maybe we can speak offline.

**Saurabh Kumar:**

Okay. Thank you.

**Moderator:**

Thank you. The next question is from Kaitav Shah from Anand Rathi.

**Kaitav Shah:**

Sir, can you talk more about the demographic conditions at present in rural, semi-rural where you are focused on? How comfortable are you with the growth and collections?

**Sudipta Roy:**

Okay. So, see, India, we just cannot paint one uniform picture across all rural areas. But what I will try to do is that give you a sort of a sectoral picture -- and this is something, there is data available and there is perception available. Perception comes on during our visits and data comes obviously from syndicated sources.

So first, I will give you our perception, right, a perception which we get when we travel extensively to rural areas while supervising our various lines of business. So, from a perception point of view, what we believe is that there is South of India, especially, there is nothing called pure rural anymore. South of India, especially in AP, Telangana, Tamil Nadu, Kerala and Karnataka, it is mostly semi urban, right, where leaving standards -- and during our travel, we do not see agrarian distress to a very large extent in the South. And if you look at, though the rainfall has been -- actually last year because of the El Nino conditions, and there are some water table issues, especially in some markets, our Rural Business Finance demand as well as collection efficiencies continue to remain strong. And so in that way, those businesses are operating quite well.

The business in which we have, at times, we -- the industry is sluggish, is the Farmer Finance business, especially our Tractor Finance business, where the industry has sort of more or less seen a sort of even keel as compared to what the numbers were last quarter. But in spite of that, our business has continued to grow because we have been focusing on our repeat customers, as well as making sure that we have greater penetration at a particular dealer level.

So, I think the rural economy is quite, I would use the word resilient as of now, right, in spite of some of the sort of erratic rainfall, etc. But if you look at the rabi sowing right now, which is the leading data that we have, the rabi -- acreage under rabi sowing has actually improved. It is about 5% more than what the expected number was, which actually augurs well for the crop going forward.

So, I would say that we are -- cautiously, we are looking at this particular area. And the fact is that wherever there are certain pockets of support, which are needed, the government is stepping in and providing that -- those pockets of support, either in terms of MSP or in terms of fertilizer subsidy or whatever, right?

So that way, I do believe that the rural sector is quite resilient. And there is -- we do not see any -- as of now, we do not see any massive headwinds developing in this particular sector, and we expect to maintain our normal business trajectory as well as collection efficiencies going forward.

**Moderator:**

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

**Sudipta Roy:**

Thank you, everyone, for joining us this morning, and we liked the interaction with all of you. As I said, we'll be also available for one-on-one meetings or any other clarificationary questions that we might need to spend more time on an offline basis. We're happy to do that.

As you are aware that Mr. Dinanath Dubhashi has wrapped up his eight long years of tenure at the helm of this organization. So, it is fitting that I would -- I should invite him to say a few words at the end of this analyst call.

**Dinanath Dubhashi:**

Thank you. Thank you, Sudipta. Thank you very much. Thank you, all of you. In fact, there is -- as I sit here today, there is only one word which comes to my mind, which is thank you and feeling tremendous amount of gratitude towards each one of you. I received lots of support, lots of respect, lots of love from each one of you.

First of all, I wish each one of you all the very best in your life. God bless all of you and your near and dear ones. That would be my biggest wish. I wish Sudipta and his team all the very best. And I have full confidence that the company will grow to immense strengths under his leadership.

I have been listening to the questions, and I would just summarize that there will be details, there are quarter-on-quarter movements and all that. But I would like to share with you the direction that the company is taking. And we are just talking about the next -- till the Lakshya 2026. You will see exciting plans being raised even after that.

But just talking about history. One year back, when we started the rapid reduction of wholesale, there were quite a few people who doubted whether we'll be able to do it without any decrease -- any hit to P&L. And I think the team has indicated that not only the team has remained together. But that kind of -- beyond everybody's expectation, the reduction has been shown.

And let me assure you, that, that will continue. And the promise of any further hit to P&L not being there will be kept. We have also built tremendous amount of strengths, business strengths, channel strengths on each of our businesses. Again, there will be quarter-on-quarter ups, downs based on industry.

But based on the channel strength, business strengths we have built, also the cross-selling, upselling strengths we are building, we will try to smoothen them as much as possible and have secular growth, which the team has been showing till now and will continue to show.

Lots of questions on credit cost, and I would only say that till now, we have been tremendously concentrating not only on underwriting, but also collection and maintaining and reducing the trajectory of credit cost. And with the new initiatives that Sudipta has brought to the table, with his experience from his previous organization and adding to that, I'm absolutely confident that credit cost will trend down secularly.

There were questions about quarter-on-quarter, how will it grow? Of course, those things will keep happening, but secularly, and we have shown that also over the last few years. The only item, which we believe will remain a little sticky, is the opex. We have always indicated that the investment in people, investment in branches, investment in digital, investment in brand, we will not be shy of them. We believe that this bodes well for the long-term future of the company.

I can only now summarize by saying that always the ROA bridge that we have guided towards indicates and now even at consolidated level. And Sudipta upgrading the same guidance from retail to consolidated very clearly shows the intent of the management. And way back in 2016, I had talked about management intent. And I see the same intent and Sudipta is upgrading the target keeping them same, whatever was for retail now for consol.

So, all this bodes well, and I would only request all of you that the same support, same love, same respect that you gave me, much more than that, I'm sure and hope, that you will give it to Sudipta. With that, I will sign off. Many of you know my personal number, personal e-mail. If you don't know it, you can take, and it would be great to generally interact with each one of you. I'm sure I will only benefit. Thank you very much, and God bless you.

**Sudipta Roy:**

Thank you so much. And with that, we would end this call.

**Moderator:**

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

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