October 28, 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: LTF

Security Code No.: 533519

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

Sub: Transcript of investor(s) / analyst(s) meet – Q2FY2024-25 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 Q2FY2024-25 financial performance and strategy update held on October 21, 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 Limited**
(formerly known as L&T Finance Holdings Limited)

APURVA NEERAJ RATHOD

Digitally signed by APURVA NEERAJ RATHOD
Date: 2024.10.28 15:36:22 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance Ltd.

Q2 FY25 Earnings Call Transcript

October 21, 2024

Management Personnel:

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

Mr. Sachinn Joshi (Chief Financial Officer)

Mr. Raju Dodti (Chief Operating Officer)

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

Moderator:

Ladies and gentlemen, good day, and welcome to L&T Finance Limited Q2FY25 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 Mr. Raju Dodti, COO; and other members of the senior management team.

Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the conference call.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 While all efforts would be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call.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 Q2 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 to all of you. I welcome you all to the Investor call for the second quarter of FY25. With me on the call are – our CFO, Mr. Sachinn Joshi, COO Mr. Raju Dodti, 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.

Q2FY25 Highlights

I would like to start the call by sharing the highlights of this quarter’s performance, wherein we have registered a quarterly Consol PAT of Rs. 696 Cr, a growth of 17% YoY while maintaining a satisfactory trajectory in our Q2 disbursements ending with an overall disbursement growth of 11% YoY with Retail disbursements standing at Rs. 15,092 Cr, a growth of 12% YoY and 2% sequential growth over Q1FY25.

Our Retail book now stands at Rs. 88,975 Cr, a growth of 28% YoY. These numbers reflect the strength of the Retail business franchise that we have created over the years which has been further sharpened by our 5 Pillar execution strategy and I am happy to state that the Company’s execution momentum to transform into a granular retail financial services provider continues unabated.

Lakshya 2026 Goals at Consol Level: Our performance

Having met Lakshya 2026 goals at the Retail level 2 years in advance (in Q3FY24), we have re-oriented ourselves for convergence at the consolidated level by FY2026, as detailed in the last quarter’s earnings call. Accordingly, our quarterly performance as against the new targets for Lakshya 2026 are as follows:

- Our Lakshya goal was to achieve Retailisation of >95%. I am pleased to share that we have surpassed this target with 96% Retailisation at the end of this quarter
- Against a Retail book growth target of 25% CAGR, in Q2FY25, our growth stood at 28% YoY
- While we have improved portfolio quality by sustaining the Retail GS3 & NS3 levels within the threshold levels, we have now tasked ourselves to converge Consol GS3 & NS3 below 3% & 1% respectively. The corresponding numbers stood at 3.19% and 0.96% at the end of Q2FY25

- On the 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 Q2FY25 stood at 2.60% up by 18 bps YoY, which in the last year same quarter stood at 2.42%

I would like to draw your attention to Slide 5 of the investor presentation where this has been delineated in detail.

Executive Summary:

I would now like to quickly run you through the key highlights of our performance in Q2FY25

- Quarterly Consol PAT of Rs. 696 Cr in Q2FY25, a growth of 17% YoY
- Quarterly Retail disbursements of Rs. 15,092 Cr, growth of 12% YoY. In spite of a challenging operating environment, our acquisition engine and persistent execution strategy ensured that the disbursements exhibited a sequential growth of 2% over the last quarter
- Q2FY25 Retail book stood at Rs. 88,975 Cr, up by 28% YoY. Consol book growth has picked up pace growing at 18% YoY reaching Rs. 93,015 Cr in Q2FY25. The on-book wholesale assets closed at Rs 4,040 Cr at the end of Q2FY25, which is ~4% of overall book
- This quarter marks completion of one year of our 5 Pillar transformation strategy and it continues to be central to our roadmap to the future, details of which are available from Slide 11 to Slide 24 of the investor presentation
- Consol GS3 and NS3 numbers came in close to the target metrics of 3% & 1%, at 3.19% and 0.96%, respectively. The slight erosion in GS3 performance over Q1FY25 is largely on account of macro-operating environment deterioration in the Rural Business Finance vertical in certain pockets, rationalization of Tractor repossession policy in early buckets and some localized adjacencies in the Two-wheeler business. Collection efficiencies in our Rural Business Finance vertical was maintained at 99.43% for Sep-24, which is a 13-bps erosion over the corresponding figure of 99.56% for June-24

Macro-economic outlook:

Now, I would like to give you some flavour on the Macro-economic scenario and sectoral outlook before proceeding to the 5 Pillars of our execution strategy.

The spread and width of rainfall distribution this year from the south-west monsoon has been unprecedented with rainfall being at 122% of long period average this year and most parts of the country have received adequate or more than adequate rainfall. This augurs well for the restoration of depleted water tables and reservoir levels in most parts of the country. The success of the south-west monsoon bodes well for a possible resumption of consumer demand in rural areas and improvement of rural liquidity post the arrival of the Kharif crop and a possible bumper Rabi cropping season. This could have a positive implication for our Rural Business Finance and Farmer Finance verticals in H2FY25. We have already seen the green shoots of improved tractor offtake in the month of October and are hopeful that the trend sustains and positively impact the entire rural sector.

We would like to share that we have seen localized impact on collection efficiencies in the Rural Business Finance vertical due to wide spread floods in certain geographical pockets namely, North Bihar, Gujarat, and parts of West Bengal. We also saw disturbances from certain unscrupulous elements hampering our collection efforts in North-Eastern UP and headwinds in Odisha on account of temporary disruption in social welfare schemes. I am pleased to share that our Rural Business Finance team was able to proactively address these issues minimizing the impact on the business overall. I would also like to reiterate that the incidence of our customers with chronic overleverage is one of the lowest in the industry with customers having more than 4 external associations standing at 5.4% of the total Rural Business Finance outstanding book. Granular details of our customers' leverage has been given on Slide 17 of the investor presentation. However, we are also seized of the fact that the industry is passing through a period of de-leveraging which might have a ripple effect continuing into Q3FY25 and Q4FY25, thereby moderating our growth outlook. I would like to inform that we did not need to dip into our macro-prudential provisions specifically created for Rural Business Finance vertical in Q2FY25. We would continuously assess our collection outcomes in the impacted geographies highlighted above and keep our options open on defraying possible slippages through existing macro-prudential provisions in H2FY25.

As far as the global economy is concerned, it has weakened over the last quarters with some of the major economies including the U.S, China, and the Eurozone now shifting their focus from targeting inflation to fostering growth momentum. The start of Fed's calibrated quantitative easing cycle along with RBI's signaling of a neutral accommodation stance indicates a movement towards a more benign policy rate regime globally and in India in the coming year. Pockets of worry remain due to the conflict zones remaining red-hot in Europe and Middle East and demand constant attention due to the possible spillover impacts into the Indian economy in case of a sustained worsening of the conflicts.

In spite of the rather uncertain global macro and geo-political situation, the domestic growth story remains intact despite some sluggishness in High-Frequency Indicators, as rural consumption and private investment demand start to gain momentum. We hope that a higher government expenditure in the second half of the year and the bountiful rains should add further fillip.

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 one year back and continue to be in implementation mode against the same.

1. **Customer Acquisition -** The focus has been sustained on maintaining customer acquisition momentum in a challenging macro environment while doing the necessary credit adjustments to maintain future portfolio quality. Accordingly, rationalizations have been made in the dealer network in both Two Wheeler and Farm Equipment business in Q2FY25 and focus has been sustained on new customer acquisition in the Rural Business Finance vertical to tap into non-leveraged customers by expanding the new village footprint. Consequently, the cross-sell penetration in Rural Business Finance has been calibrated downwards to exclude customers of higher risk profiles. Details of the same are available in Slide 12 & 13 of the investor presentation deck.
2. **Sharpening Credit Underwriting -** Project Cyclops – our three-dimensional credit engine that was operationalized in Q1FY25 has now been scaled up to cover 55% of the Two Wheeler monthly throughput. Two additional scorecards – the Fraud Scorecard and Dealer Scorecard have been implemented in Q2FY25 taking the number of scorecards in deployment to 16, only for the Two Wheeler business. The initial results remain encouraging with through-the-door net-bounce numbers for fresh acquisitions being approximately 125 bps lower than those underwritten by legacy algorithms. Project Cyclops will be implemented for the tractor business in Q3FY25 followed by the other lines of business, notably Personal Loans & SME Business Loans in Q4FY25.
3. **Futuristic Digital Architecture -** The work on upgrading our technical capabilities and IT framework remained unabated in Q2. On the large partnerships initiatives, deep integration with CRED enabled us to go live on Personal Loans sourcing within expected timelines. Progress has been made in optimizing cloud usage expenses and building robust disaster recovery infrastructure, alongside beefing up the cybersecurity capabilities. The organization has embarked on the task of housing the entire Core IT, Data Sciences & Operations capabilities in an integrated facility in Navi Mumbai, slated for go live in Q4FY25.

L&T Finance is also happy to announce that the inaugural edition of R.AI.S.E., India's premier BFSI-focused Artificial Intelligence conference featuring luminary speakers will be held in Mumbai on the 26th of November, 2024 showcasing practical use cases of AI in the financial services domain to BFSI industry & Fintech participants. We urge you to visit the event website 'www.ltfraise.com' and register for the same.

4. **Brand Visibility -** Over the last few quarters, we have invested in building visibility around high-traffic customer points like airports and in-flight advertising on the urban side and wall paintings and melas on the rural side and marked our presence at Global Fintech Fest 2024.

   We will be launching integrated marketing campaigns for Two Wheeler and SME-focused products in the coming months. We are pleased to inform that we have signed a contract with Jasprit Bumrah as a brand ambassador for L&T Finance products.

5. **Capability Building -** In line with our objective of boosting the human capital of L&T Finance with an execution bias towards various initiatives, the Regional Business Head structure was operationalized in Q2FY25 to provide more granular distribution & risk control on the ground, aid cross-sell and inter-business synergies and reduce response times to tap emerging market opportunities. Four senior professionals from the banking sector have been onboarded in Q2FY25 to transition L&T Finance from a business silo-driven organization to a more participative matrix organization structure with far more granular senior supervision on the ground in the four geographical regions of the country.

   During the quarter, we also launched our first Model Branch in Madurai, Tamil Nadu for elevated customer experience and brand visibility and will continue to replicate this templated design across all our new and legacy branches over the next few quarters. Details of the new organization structure and model branch are provided on Slide 24 of the investor presentation.

   The organization also continued on its people developmental objectives emanating out of the Great Place to Work survey conducted in April 2024 to transition the organization into a truly differentiated and employee-focused workplace

In addition, I would like to provide a half yearly update on our Wholesale assets and Security Receipts portfolio. As guided earlier, we continue to maintain that we are on track in ensuring the orderly rundown of this book over time. Many of our Real Estate assets in the ARCs, especially those in residential projects have gathered significant momentum towards resolution, with resumption of construction and increasing velocity of sale of units to end users. As part of the ongoing process, to enable faster resolution, we may be required to transfer one on-book asset to ARC in Q3FY25. This in no way diminishes our expectations of eventually recovering more than the Net Carrying Value on our books. We would like to reiterate that our provision coverage and the one-off additional prudential provision on SRs accrued in Q4FY24, would be more than sufficient to deal with the resolution of these assets

Now, Mr. Sachinn Joshi will take you through the financial updates for the quarter.

Sachinn Joshi:

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

Quarterly Performance:

- Our quarterly Consol NIMs + Fees remain strong at 10.86% owing to change in portfolio mix and Weighted Average Cost of Borrowings improving by 5 bps on a sequential basis on account of astute liability management
- Our quarterly Consol PAT at Rs. 696 Cr was up 17% YoY
- Healthy quarterly Retail disbursements of Rs. 15,092 Cr were up 12% YoY
- Our Retail book stands at Rs. 88,975 Cr which is up 28% YoY on the back of healthy Retail disbursements during the current quarter. Our Consol book stands at Rs. 93,015 Cr, this is up 18% YoY
- Consol RoA stands at 2.60%, which is up 18 bps YoY
- Consol RoE at 11.65%, is up 84 bps YoY

Retail Businesses:

Rural Business Finance

The business registered quarterly disbursements of Rs. 5,435 Cr, down by 5% YoY. The book size reached ~ Rs. 26,500 Cr which is up by 22% YoY in Q2FY25.

Farmer Finance

In Farmer Finance, disbursements stood at Rs. 1,782 Cr in Q2FY25, up by 16% YoY. This led to the book size reaching Rs. 14,488 Cr, reflecting a growth rate of 9% YoY.

Urban Finance

This segment, which comprises Two Wheelers, Personal Loans, and Home Loans/LAP businesses, saw a 29% YoY jump in overall quarterly disbursements. As a result, the overall book size increased to Rs. 41,578 Cr in Q2FY25, translating into a 33% YoY growth.

- **Two Wheelers:** The Two Wheeler business registered quarterly disbursements of Rs. 2,393 Cr in the quarter. The disbursements were up 32% from Rs. 1,817 Cr in the same quarter last year. 60% of the disbursements were contributed by prime customers during the quarter. The book size increased to Rs. 12,699 Cr, up 33% YoY.

- **Personal Loans:** In Personal Loan, we achieved disbursements of Rs. 1,361 Cr, last year we had done about the same which is Rs. 1,308 Cr and the book size stood at Rs. 7,178 Cr, an increase of 11% YoY. During the quarter, growth in this segment was aided by expansion of physical distribution through the DSA channel focusing on salaried prime customers.

- **Retail Housing:** Moving on to Housing, it achieved quarterly disbursements of Rs. 2,531 Cr, up 46% YoY, last year same time we had done Rs. 1,734 Cr. The book size crossed Rs. 20,000 Cr milestone and finally closed at Rs. 21,731 Cr, an increase of 42% YoY. The momentum was sustained in the business through strategic measures including collaborative launches with prime developers across top locations.

Additionally, the launch of LTF's 'The Complete Home Loan' offering across 11 locations drove higher lead generation which should lead to tangible results over the next few quarters. The Home Décor finance package of The Complete Home Loans programme has seen a good customer acceptance and we expect increased penetration of this addon to lead to greater customer stickiness as well as higher portfolio yields.

- **SME Finance:** Our Q2FY25 disbursements stood at Rs. 1,244 Cr, up by 43% YoY. The book stood at Rs 5,190 Cr at the end of September 30, 2024. The strong growth in business volumes was aided by building additional channels to diversify the existing sourcing funnels. We are in the final stages of launching our supply chain product in Q3FY25.

I will now hand over the call back to Sudipta to make his closing comments.

Sudipta Roy:

Thank you, Sachinn. In summary of my opening note, I would like to maintain that Q2FY25 remained one of the most challenging operating quarters post-Covid in the BFSI sector. We expect Q3FY25 to be as intense a quarter as Q2FY25 with a normalization runaway visible only in Q4FY25. We are confident that we have enough buffers and safeguards available to ensure a consistent outcome in Q3FY25, even as we continue to operate in a difficult credit environment. On the back of a good monsoon, we remain cautiously optimistic about improving rural and urban demand and credit outcomes during Q3FY25 and we will remain focused on execution of our transformation agenda across all lines of business.

I thank you all for joining the call and for a patient hearing. The floor is now open for questions.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question comes from the line of Kunal Shah with Citi.

Kunal Shah:

Yeah. So, first question is overall on the credit cost front. So, when we look at it, the ECL provisions have actually come off, so would it be fair to assume that there would have been a significant write-off? And if you can just quantify the amount of overall write-off and write-off in the MFI portfolio, that would be helpful, yeah.

Sachinn Joshi:

This is Sachinn here. Yes, as far as the overall credit cost is concerned, it has gone up, no doubt and the PCRs have also come down. Actually, the impact has been, as Sudipta mentioned in the initial comments, there has been some impact, whether it is Rural Business Loans, there has been some challenge; simultaneously we also had on the repo assets as far as Farm is concerned and finally some issues on the Two Wheeler. So, it's a mixed bag, I would say. It's not just relating to Microfinance. The write-off is actually -- once the 100% provisioning is made across any product or any asset, the write-off actually becomes an accounting entry for us. So, there will be 100% provided assets, which are still part of GS3 and every quarter the write-offs keep happening. So, we really don't share the actual write-off number, but the PCR reduction is primarily on account of some write-off, which you're right and addition of certain Stage 1, Stage 2 assets, which would have moved, roll-forwarded to 90-plus. Naturally, these have a lower provision compared to the 100% provision, which was on the written-off assets.

So that has led to a reduction in the overall PCR, but we believe that our PCRs have been pretty helpful at 75%-76%, which has come down by a few percentage points. If you have seen, we have been mentioning this also during our earlier discussions and on various calls that we have been maintaining a very conservative approach and whether it's PCR, whether it's macro prudential provision that we create, the additional overlays that we have, all these are meant typically for a rainy day. So, these are difficult times, no doubt and something which was 75%-76% going down to 71% and all, we really don't think it's something really worth worrying at this point because we believe that it's a matter of a couple of quarters, and it should be business as usual.

Kunal Shah:

Yeah. And write-off would have had an impact even in terms of slightly lower increase in Stage 2 and Stage 3 as well? Because maybe otherwise, when you look at it in such a challenging environment, GS3 and GS2 is up hardly by like, say, 14-odd basis points both put together.

Sudipta Roy:

Yes, that's right.

Kunal Shah:

And secondly, on the MFI side. So, hearing the commentary from the peers, it seems like Bihar is going through some kind of a swing. You also highlighted floods have impacted the northern part of the Bihar. But there, if we look at the SMA-2 pool or SMA-1 pool, that has gone up quite significantly, which suggests some flow through into Q3 as well. So, now looking at the overall environment in the MFI, are we worried? You also indicated like Q3 would be challenging. But then in that case, are we looking to utilize some of the macro-prudential provisioning getting into Q3 given this stress which is flowing in. And the general commentary on the overall MFI would be very helpful, yeah.

Sudipta Roy:

Yeah. So, specifically on Bihar, though we don't normally give state-wise collection efficiencies, but I will say because there have been some floods in Bihar, especially in North Bihar, we ended our September collections efficiency in North Bihar at about 99.5%. So basically, what I want to say is that in spite of floods, in spite of whatever disruptions come in, our focus on collections and our people's focus on collections continues unabated and we expect that in October the situation would improve as the flood water recedes. It is true that the industry is passing through a period of deleveraging and obviously, as the industry passes through a period of deleveraging it will show up in numbers of the players in the microfinance industry.

However, I would like to put on record a couple of things and frankly, we have seen some commentaries on our performance, which need clarification. The first thing that I would like to say is that L&T Finance, as an organization, especially in the Rural Business Finance vertical, we do not lend to a single customer, who is not a 0 DPD. So that is the first thing that I need to point out. The second thing is that our overall guardrails are always consciously maintained. That means we underwrite not only the customer, but we underwrite the customer's family as well. So, we calculate leverage at a family level.

The second thing is that if a customer's overall debt goes above Rs. 2 lacs at any point in the cycle, whether if she is a fresh customer or if the customer is eligible for a repeat, but the leverage is more than Rs. 2 lacs, that customer goes out of the lending window. So that means we make sure that when we lend to a customer, the overall leverage of the customer is below Rs. 2 lacs. And I would also like to point out that some of these guardrails have been introduced by MFIN as late as June-July of this year. However, L&T Finance has been maintaining these guardrails since 2020. So, it's not that these guardrails are coming to us suddenly new. We have been doing it for the last 4 years.

A couple of more things. First and foremost thing, our approval rates in the microfinance vertical is 40%. Once our sales guy goes and sources a particular file, then there's an independent check by a branch process manager, which is a completely different vertical, and then last but not the least, about 15% of all our disbursals are checked by our risk control unit. So, it's a 3-tier process through which our customers come across because our focus has always been to bring in non-leveraged customers. The other thing, which I would like to state is that we realized, actually early this year and the latter part of last year, that the industry is probably getting into a situation of leverage. That is why we upped our efforts into new non-leveraged customer acquisition from September last year. And from January of this year, we started cutting out close to Rs. 75 Cr to Rs. 100 Cr of repeat disbursements because we felt that those customers were on the border line of getting leveraged. And this exercise has been continuing for us since January of this year.

And sort of last but not the least, we have brought down our average accounts per collector sharply from about 540 to about 460, which means we have put in actually 1,000 additional collectors in the field. And we did it early on. So our average accounts per collector ratio has actually dropped, which helped our collectors also to address the sort of the flow issues much more effectively. So overall, it has not been a single-axis action. It has been a multi-axes action and I would like to say that the discipline with which the business has been built is not a 1-year phenomenon. It's a 3-, 4-, 5-year phenomenon. So, which obviously, when the industry is in stress through deleveraging, obviously, if you are in an industry, there will be a ricochet impact on us. We are not immune to it and on top of that, because of the monsoons and the floods etc., it has added to a little bit of additional pain of what the industry has been going through. But I can assure you that our business is fully capacitized to handle this.

And last, but not the least, we have Rs. 975 Cr of provisions which has been kept aside as macro-prudential provisions, which we have not touched this quarter. However, as Sachinn said in this call, for example, if you have an umbrella, and it's raining outside, any logical person will open the umbrella to prevent himself/herself from getting wet. So, we have this umbrella. We are not saying that we will use it, but the fact is that, that option is on the table. But however, as of now, our collection teams are working and our business teams are working to ensure that we have the best outcome possible through these difficult circumstances.

Kunal Shah:

Sure. Just one thing, one clarification. Macro-prudential is Rs. 977 Cr? because last time, we highlighted closer to Rs. 1,100 Cr. So not sure and you mentioned like there is no utilization of macro-prudential at all.

Sudipta Roy:

Macro-prudential provision allocated to Microfinance is Rs. 975 Cr. Overall, Rs. 1,100 Cr is OTR outlays, etc. So that is separate from Microfinance. Pure microfinance is Rs. 975 Cr. PCR in our Rural Business Finance is close to 100%, if not 100%. So, 90-plus everything is anyways 100% provided.

Moderator:

The next question comes from the line of Hardik Shah with Goldman Sachs.

Rahul Jain:

This is Rahul here. A couple of questions. One is, I appreciate the detailed explanation that you gave just a while back on the macro-prudential and the PCR and the portfolio that you've been underwriting. But just wanted to understand the PCR bit again. So, Stage 2 also saw a dip. So, I wanted to understand how you think about Stage 2 provisions and Stage 3 provisions? And where does this provision coverage need to go before you start opening your umbrella, which is your macro-prudential provisions? How should we think about? Because your commentary about the outlook also was a bit soft, at least in the third quarter. So how should we think about the utilization or the PCR trajectory from here on?

Sachinn Joshi:

Initially, Sudipta made a mention that the deterioration in GS3, it was primarily through the macro-operating environment deteriorating in Rural Business Finance vertical, a rationalization of tractor repo policy and some localized adjacencies in Two Wheeler business. Yes, there has surely been challenges externally in the Microfinance segment. But that is about 26% of our overall book. There are certain other challenges, which he spelt out on the call. Now as far as PCRs are concerned and you talked about Stage 2. Now Stage 2 percentage actually includes the macro-prudential provision, which is sitting over there. We have not enhanced this macro-prudential provision. It has been Rs. 975 Cr, and the book has been growing. So, in percentage terms, you will find that there will be a decline as far as Stage 2 is concerned. The utilization, the overall PCR that we spoke about, just to repeat, we have gone from 75% to 71% on the aggregate basis, more to do with some write-offs of 100% provided portfolio, not necessarily that the whole piece has been completely written off. It's an accounting decision, which is taken, more to do with cash flows rather than anything else. As far as taxation is concerned, already we take a hit, whenever write-off happens, there is a cash inflow for us. The 71% is primarily because of new assets, which were, say, in Stage 2, moving into Stage 3. For Micro Loans, as Sudipta mentioned just a while back, anything which is 90 plus, we do 100% provision, but that's not true for other assets because you also have a very safe book like Home Loan - LAP, you have a book like Two Wheeler, Tractor. The ECL model decides what will be the percentage provision required for a specific Stage 3 asset. And hence, this movement from Stage 1, 2 to Stage 3 and 100% book which has been provided being written off leads to these changes. Now when there is wherewithal, we ensure that we maintain the PCRs at a particular level. Like we spoke about overlay just some time back. But at this point of time, the requirement was not there. If you look at the peer group comparative financials, broadly a 50%-55% PCR is a pretty comfortable situation to be in. We have always tried to be conservative. As and when the P&L permits, we can always rebuild. We had mentioned in a couple of calls back, a couple of quarters back, that this macro-prudential provision also, which is currently on Rural Business Loans, we would take a call on whether -- as the unsecured book starts growing, whether this whole macro-prudential provision should be applied to the full unsecured book, but that will be over a period of time. I hope I have clarified.

Rahul Jain:

Very, very helpful explanation, Sachinn. And just if I were to have a follow-on with the -- your credit cost that you talked about, I think, the news channels were flashing some of the comments that it will stay elevated for the next 1 or 2 quarters more. Does it take into account any further buildup of macro-prudential? Or will it be completely to respond to any potential flow-through into Stage 3 provisions?

Sachinn Joshi:

So, if the challenge in Micro Loan piece actually increases any further, then as Sudipta mentioned, we always have a choice to dip into the macro-prudential provisions and utilize part of it. As he also mentioned that we are better placed compared to the industry. Our numbers are much better. Our collection efficiencies seem to be in control. And if Diwali, post-Diwali, if things don't really improve, there may possibly be a need for macro-prudential provision utilization, but at a much lower level. But if things worsen from here, yes, we keep that option open.

Rahul Jain:

Alright. Secondly, on the MFI portfolio, basis your details given in the presentation, we understand zero plus is about 3.5% of the portfolio, MFI portfolio. Is it possible to get the granular cuts as to how much is 0 to 30, 30 to 60 and so on and so forth?

Sudipta Roy:

Normally, we don't give such granular cuts, so we have -- what we have done is that this time around, we have put the association wise cut, which is in Slide 17 of the presentation. So that's what we have given. So -- and I believe that the entire market is poised now for -- this is our belief that on the back of a strong monsoon, the entire market is poised now for a gradual recovery.

We have seen very good tractor demand in the first half of October and we remain hopeful that the tightness that we saw in the market, especially in certain geographies will start dissipating towards the latter half of Q3 and probably sharply improve over Q4. So, as I said, we remain very optimistic of our -- I would say, a soft landing between the latter part of Q3 and early part of Q4.

Moderator:

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

Mahrukh Adajania:

So, is it possible to give any cut on what proportion of total credit cost was attributable to rural MFI? I mean, would it all be driven by rural MFI and Farmer Finance this quarter because nothing really bad is happening on the corporate front or other businesses. So -- because everyone's kind of indicating some level of credit cost for the MFI business, so if you could share those details?

Sachinn Joshi:

Yes. Yes, you want to continue, you please continue.

Mahrukh Adajania:

No, no, you please continue. I'll ask my second question.

Sachinn Joshi:

So, on the breakup of credit cost, of course, we don't share, but I'll just give you a general response to this. We spoke about Micro Loans. We spoke about Farmer Finance and Two Wheeler finance. Naturally, it's slightly higher for Micro Finance, followed by Tractor and Two Wheeler. So, it's a mixed bag, I would say. It's not just a composition of one particular book really going bad.

Sudipta Roy:

See Mahrukh, you would recall that there were industry-wide reports of difficulties in collections in April and May, which was reported by many players across the industry. So now obviously, you can understand that if Rs. 100 flow at any point in time, not the entire amount flows back and not an entire amount is collected back. So obviously, some portion of that has flown, in Q2, and we have seen stabilization in the latter part of Q2. But obviously, the credit cost components, as Sachinn said, are all components of this.

Mahrukh Adajania:

Got it. And my next question is that in the first few days of October, say, has the collection efficiency deteriorated or stable or only marginally down, any such inputs in Microfinance.

Sudipta Roy:

Okay. So barring Bihar, the flood-affected villages in Bihar, our collection efficiency has remained relatively stable in the first half of October.

Moderator:

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

Avinash Singh:

A couple of questions. The first one is that there is a reasonable improvement in opex ratio, particularly the non-employee opex. Now can you help us understand what is sort of improving? And is this sustainable? And even if you were to sort of ramp up your employee headcount further, will this sort of a ratio sustainably improve or not, that's one?

And second, just on this Microfinance, again, continuing. I mean, you are suggesting that, I mean, Q3 should be likely bottom with Q4 or early Q4 recovery. Given the fact that, I mean, many of the peers, I mean, the banking as well as non-banking who have sort of started to acknowledging the pain earlier are still kind of not giving a very clear-cut sort of a deadline to end the pain. What makes -- you -- of course, you have explained, you have given retail data, but eventually if the geographies, the customer segments are undergoing this, what sort of gives you confidence that your pain will be sort of end in 1-1.5 quarter?

Sudipta Roy:

So, the first question, Sachinn will take. I'll take the second question.

Sachinn Joshi:

So as far as opex is concerned, I think, every quarter-on-quarter, there you may see some variations or some increase in opex. This is primarily to do with investments that we are making, either in IT, various technology investments are being made. We are also undertaking certain branding activity, plus rollout of new branches and all. So, these are the major components of expenses, which we are currently seeing. So, quarter-on-quarter, you may see some kind of increase-decrease, so I don't think you should really try to get some meaning out of it. We have mentioned that we would like to be -- the opex plus credit cost, we would like to keep it in the range of about 7%.

So, at this point of time, we believe that a couple of quarters we will have some challenges as far as credit cost is concerned because of the external environment. We have the branding and all, it will be undertaken as an investment depending on the external environment. There is no point in really going out and go very aggressively with our branding and advertising when the market itself is a challenging piece. So, 7% is, I think, the overall range that we keep ourself. It can be plus or minus a few basis points here or there. So, nothing specific to really make any assumptions if you are thinking of modelling it. I think you should continue to model it in the same range because when we talked about the RoA tree, we spoke about the NIM plus fee in the range of about 10.75% to 11.25%. Naturally, in these times, we may possibly see a NIM plus fee range coming down from about 10.5% to 11%, maybe for a few -- couple of quarters till the time the challenge is addressed. The opex plus credit cost being in the range of 7%, it can be plus or minus something. But the RoA trajectory in the medium to long term, we would want to pursue the Lakshya 2026 goal of being in the range of 2.8% to 3%. Maybe a few quarters of some turbulence, we will try to deal with during that.

Sudipta Roy:

I'll take the second question. So obviously, a couple of things has -- and I gave some commentary on how our underwriting and our management of the entire Rural Business Finance vertical is mandated to focus on more predictable customers. Now a couple of -- why we think there might be a soft landing and I use that term. First and foremost thing, we have had good monsoons. And the first signs are available in improved tractor demand, so we'll have to wait for the commentary from the various FMCG companies as to what level of demand that they are seeing, to put two plus two together. But the fact is that normally, monsoon brings in income and these monsoons have been really good. So, we are hopeful that towards the latter -- Kharif crop arrivals seems encouraging. We are tracking the arrivals and basis the water table levels, we think Rabi crop will be a bumper crop. So, we do believe that rural incomes will improve. Secondly, obviously, the social scheme, the government social schemes have started flowing again. They had a temporary hiatus on the background of the elections. They have started flowing again, which will again improve rural liquidity. Last, MFIN has come out with the norms. So, MFIN norms got implemented from June-July. So, players have started adhering to the MFIN norms. So once -- so basically, the leverage adding, obviously, has stopped, and we have to understand that most of these loans are 24 months loans. And the problem really started in January -- December, January of this calendar year. So actually, if you see, we are already 12 months almost -- not 12 months, but maybe about 9 to 10 months into the problem. So, a lot of deleveraging already has happened. Maybe some tail-end deleveraging is still left, but that might happen over Q3 and the earlier part of Q4. But I do guess that maybe 60%-70% of the deleveraging has already gone through. So -- and overall, I think each and every player has become cautious, overall leverage has been coming down. So, I do believe that with all these factors playing in, we actually remain hopeful that there will be a soft landing in the latter part of Q3 and the earlier part of Q4. However, there has been a significant amount for the industry that has flown into PAR 0+. And that will continue from a financial point of view, that will continue to flow and cause impact on the downstream P&Ls between Q3 and Q4.

Avinash Singh:

Okay. Thank you.

Moderator:

Thank you. Next question comes from the line of Sameer Bhise with JM Financial. Please go ahead.

Sameer Bhise:

Hi. Thanks for the opportunity. I just had one question on the Home Loan fees. I see the ticket size on the LAP has kind of inched up meaningfully. Just wanted to get some sense here and it is -- I'm asking because it's, say higher than the Home Loan average ticket size.

Sudipta Roy:

So, the team has been focusing on LAP and the team has been focusing on LAP primarily in the urban areas. So, the LAP -- and the LAP proportion of the entire portfolio also has slightly gone up. We have been also focusing on another product of ours which is Micro LAP (part of the book size of Rural Business Finance) in which our book size is now about Rs. 178 Cr and average ticket size there about Rs. 5 lacs to Rs. 6 lacs sort. So overall, on a weighted average basis, there has been a focus on pushing yields upwards both in our urban LAP as well as on our Micro LAP product to just balance the yields a bit.

Sameer Bhise:

And what kind of yield would be there, urban and rural.

Sudipta Roy:

Sorry.

Sameer Bhise:

What yields would you be earning right now on urban and rural Micro LAP?

Sudipta Roy:

So urban will be about...

Sachinn Joshi:

Urban is about 10% to 10.5%.

Sudipta Roy:

10% to 10.5%. Micro LAP, the yields can go up anywhere between 17% to 18%.

Sameer Bhise:

Okay. This is helpful. That’s all from my side. Thank you.

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.

Sudipta Roy:

Nischint we are barely able to hear you. Can you -- I don't know use..

Nischint Chawathe:

Am I better now? It's better now?

Sudipta Roy:

Yes.

Nischint Chawathe:

Yes, sorry about that. Just a couple of questions. One is your fee income was almost flat. Is it to do with the Micro Loans business or are there any other factors out here?

Sudipta Roy:

No, not really. Sachinn, do you want to take that.

Sachinn Joshi:

Yes. So, fee income, of course, has a composition of processing fee on disbursements. So, if disbursements are slightly subdued naturally for the Rural Business Loans has higher levels of processing fee income. Number two is the cross-sell income which is the CLI, credit-linked insurance. With the disbursement, the new disbursements coming down naturally this also gets impacted. Year-on-year basis one more factor is that Q2FY24, there was a one-off item of interest on income tax refund, which led to the overall fee income increasing in the previous year same time which had actually not been part of it. So that's also one of the reasons. But otherwise, in general, I think the trajectory wise, it's -- directionally it's 1.92% fee income which we feel is very healthy fee income.

Nischint Chawathe:

Have you called out how much was the quantum in the base year for the income tax refund?

Sachinn Joshi:

Should be about anywhere -- I think it was about Rs. 15 Cr to Rs. 20 Cr.

Nischint Chawathe:

Okay, not very meaningful. Okay, got it.

Sachinn Joshi:

No.

Nischint Chawathe:

Sure. You also mentioned that we discussed a little bit about tractors and the stress from first quarter sort of flowing into slightly higher credit cost this quarter, but what exactly happened on two-wheelers? I believe you mentioned something about localized adjacencies, so just curious what actually happened over there.

Sudipta Roy:

See, there are certain markets in two-wheeler that really performed like not according to our expectations. So, for example, markets like suddenly - and this was primarily a deterioration that happened in April and May. And I'll give you one example. For example, Surat, suddenly we saw galloping delinquencies in Two Wheelers. So, as I said localized adjacencies mean there are certain pockets in which we saw heavier flows in the month of April and May. Again, this is not us, but the industry saw it. But if you see, we continue to fare much better than industry in terms of our overall sort of credit costs and our index delinquencies. So, in Two Wheeler, we have about 87% of the delinquency of industry. And if you see our collection efficiencies actually have been continuously improving from about 97.1% to about -- above 98% by the end of Q2FY25. So whatever sort of slight deterioration that we saw in April and May in last quarter that has stabilized and that is on a pathway to sort of resolution. We have pushed up the prime share of our Two Wheeler business to almost 60% prime share right now. And if you can see in Slide 20 where we have given our prime share in disbursements compared to the same time last year and prime share on book compared to same time last year. So, I would say that majority -- quite a significant portion of our Two Wheeler business is now prime Two Wheeler. And this has been done to make sure that even some of these localized adjacencies that we see are better managed in the future. And because of our new three-dimensional credit engine, Cyclops, is completely now upscaled on our Two Wheeler business. 55% of Two Wheeler business is now going through Cyclops. By the end of November, maybe early December, 100% will flip over to Cyclops. And early signs are very good. The Cyclops' first net bounce is 125 basis points lower than from our legacy algorithm. So, obviously, there has been a lot of work which has been done to even sort of prevent any sort of this sort of this sudden 1or 2 month blowout that happens in the future.

Nischint Chawathe:

So probably going forward, your guidance for second half which tends to be a little more guarded is largely from Micro Loans. I think, these two segments, you believe are sorted?

Sudipta Roy:

It is largely from Micro Loans. And again, I would like to point out and thanks for asking this question. Largely, I point out that sort of the worries on Micro Loans for us is less -- okay, yes, there is worry from sort of ricochet impact on the overall ecosystem for people who have borrowed from others and are leveraged. There is a little bit of worry from that, but we are more worried about the impact of this -- environmental impact like Bihar floods. There are some unscrupulous elements operating in the North Eastern U.P who are sort of hampering collection efforts, the resumption of the social flows in Odisha, etc. So, our pain is more from those areas. Because of our guardrails and because of our assiduous focus on avoiding non-leverage customers and always making sure that only one customer has one loan at a point in time from L&T Finance, I think we have been able to sort of not be in the eye of the storm, if I were to use that particular term, but when a storm happens there are like gusts of wind that comes to the farthest player as well. And so we are not immune to that.

Nischint Chawathe:

And just final one with all of this, where does -- where do we go on loan growth for a company as a whole and let's say even for the microfinance piece over the next couple of quarters?

Sudipta Roy:

See, our guidance is 25% loan growth as far as Lakshya objectives. Now, obviously, if there is a one or two quarter calibration, we will have to go through that because we have braked on the MFI and Rural Business Finance disbursements. And for the sake of greater caution, we have braked on it. I would say that we -- on the festive season, we are seeing good demand in tractor. On the festive season, we are seeing -- for the last one week, we are seeing good demand in Two Wheeler. Lot of new housing project launches are happening. We have been working on building our developer channel in our Retail Housing Finance vertical. And if you look at our Personal Loans, our Personal Loans have significantly grown quarter-on-quarter and we have gone -- and this quarter we'll be also adding new digital partners and very large digital partners on our Personal Loans portfolio. So, again on Personal Loans we'll grow on a risk-calibrated fashion. We have braked on one line of business, but the fact is that on a risk calibrated way, we remain continuing growing on the other lines of business and take benefit of the festive momentum. So, I cannot at this point, at the beginning of the quarter pinpoint and say where we will end up at the end of the quarter. But you will be seeing that apart from Rural Business Finance vertical, where caution rules the roost, for all other businesses there will be a growth bias in this quarter and the coming quarters as well.

Nischint Chawathe:

So broadly remain in the corridor is what you will suggest?

Sudipta Roy:

Yes

Nischint Chawathe:

Perfect. Those were my questions. Thank you very much and all the best.

Sudipta Roy:

Thank you so much.

Moderator:

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

Abhijit Tibrewal:

Thank you. Good morning, everyone. So just wanted to understand, I mean, while these results as well as our commentary shows that we've been better off than a lot of other peers in Microfinance, I think, I mean, one of the things and just a suggestion that some of the metrics which are also shared by our peers like collection efficiency including arrears, excluding arrears because the collection efficiencies that we share which is zero DPD customers, that somehow, I mean, unless we are comparable with our peers, will not give that much confidence. And while I appreciate you have said on the call that we do not share segment wise GS3 or segment-wise credit cost. I mean, when the environment is such where the sector itself is going through a pain, we have almost one-third, almost 30% of our book coming from Microfinance side. I mean sharing some of these details during maybe one or two quarters, will help all of us kind of gain better confidence, higher confidence in LTF's Microfinance book. So, if you could please consider that maybe in the coming quarters. But sir, the question that I had really was on this statement that we made in the fact that Q3 will be a challenging quarter and Q4 seems like improving. So, I'm just trying to understand if you see today, unsecured itself, I mean what started with credit cards spilled over to personal loans. It's now spilling over to micro finance now? And if you look at credit cards and personal loans, that pain is still not over yet. So, our unsecured credit cycle what we are seeing in Rural Business Finance now, and at the sectoral level, do you think it is just a hope today or moving the goalpost where we think that maybe the problem will get resolved by Q4? Or I mean, how to read it is what I am trying to understand because 1Q when everyone posted their earnings call, everyone said, that things look like will start improving from Q2. Having seen Q2, now we are saying, maybe things will start improving from Q4. So I'm just trying to understand, is it like just things getting delayed and we'll see when it comes? Or is there another way to look at this? This is my only question.

Sudipta Roy:

See the thing which is there is that -- the first thing, obviously, which gives us hope is good monsoons. The first green shoots of a very rural product, which is tractors, demand going up. So that gives us good hope. The second thing is that, see, all these are 24-month loan. And as I said, we realized that the industry was going into -- get into inclement weather as early as January of this year. So, the fact is that though it started showing up in results sometime around May-June. But the fact is that the signs were visible in January only. The early signs were visible in January. So, the fact is that the industry actually has now gone through a period of deleveraging for about close to 9 to 10 months and since it's a 24-month product, the book runs up very fast, and which is the nature in any unsecured product. Typically, unsecured product peaks and the bad portion of the book peaks very fast, typically within a period of 6 to 12 months. So by December, we would be already been 12 months or almost nine months into the leveraging cycle. So that gives us sort of a reasonable amount of hope that there will be a soft landing in the latter part of Q3 and the early part of Q4. The question is that if suddenly something, if for example, rains were bad, we would have said that, no, we really think that this might elongate. The only thing that because monsoons have been good, the Kharif arrivals are good, social flows have started, we expect a bumper Rabi crop. If on the back of those things, things don't improve... And lenders are becoming more responsible. Deleveraging has started across the entire industry. So, I do believe that things will move towards normalcy in the early part of Q4.

Abhijit Tibrewal:

And just one last thing. While we've spoken a lot on tractors, two-wheelers, even microfinance. The personal loans, like you rightly said, we started growing again, you are expecting some good large digital partners to come on board in the next couple of quarters. Just trying to understand, banks, which reported last week, large personal loan players, on the NBFC side, still seeing stress in personal loan portfolio. Are we comfortable there now and maybe that is a sign that we've started growing again.

Sudipta Roy:

Yes. So, if you see, we really slowed down Personal Loan sometime last year. Last Q3 of FY24, we slowed down our Personal Loans. So, if you see Q2 in FY24, we did about Rs. 1,300 Cr or Rs. 1,350 Cr of disbursement. After that we dropped it to as low as Rs. 700 Cr. We dropped the volumes at 50% because we wanted to rework the way we wanted to do Personal Loans. And now in Personal Loans, we are completely focused on the prime segment, again, and the salaried segment, prime salaried segment. And frankly, we are very happy with the new portfolio that we have garnered, which is showing excellent credit outcome. So -- and that has given us confidence to start scaling it up once again, but you will see that this will not be a mad scale up. This will be a gradual calibrated risk-focused scale-up. Obviously, Personal Loans is an essential component and ingredient of any retail lenders balance sheet. Because this is a good product to do from yield perspective. And frankly, if you are -- if you maintain your guardrails well and don't go crazy in disbursements, then actually, the outcome can be very, very good. So, we are now focused on a very risk-calibrated scale up with the large amounts of data thrown in the underwriting process. Cyclops, our new credit engine, will be pushed into underwriting Personal Loans, where we'll be using multiple lines of data digitally to underwrite our customers. So, we are very confident of being able to scale up this business with an excellent credit and return outcome for the business.

Sachinn Joshi:

Abhijit, just on the first point that you mentioned in terms of disclosure. I think, last couple of quarters, if you see, especially on the Rural Business Finance, we have gone and provided more than whatever we otherwise keep sharing in terms of information. This quarter, we have talked about, we've given the bucketing of the number of associations that we have across the book. The collection efficiencies, you are right. There are different methodologies used by different players. I think what is important to look at is, how the collection efficiency has changed between the two quarters because if you look at only the differential, the methodology could be whatever, but the differential will actually spell out what has been either the deterioration or improvement in the overall quality of book. I think there are -- plus, there is also an industry-related.

Sudipta Roy:

Yes. And Abhijit, I'll point out to the Slide 18, where we have given the 12 month on book performance from July'23 to Jun'24, so that is -- we are at 23% of industry. If industry is indexed at 100, we are at 23%, and this is TransUnion CIBIL data. If you look at Slide 18, it will give you a sense.

Abhijit Tibrewal:

Yes, sir, I have seen that. Yes, yes, absolutely. Sir, the disclosures that you have given out is indeed increasing every quarter, then that's appreciable. My limited request for you is, if some of the data points, which are reported by peers as well, if we start reporting them, if possible, it will just give all of us greater confidence in what you have articulated that our experience in this credit cycle in microfinance is better than peers. That's the limited point that I wanted to make.

Sudipta Roy:

We take this on board, benchmark ourselves against the others, and then we will see. See, our level of disclosures has significantly gone up over the last couple of quarters across all our lines of business. But definitely, we'll take this suggestion on board and see to the best how and what we can do.

Moderator:

Next question comes from the line of Alok Srivastava with UBS.

Alok Srivastava:

Just going back to the macro buffer part, I was just trying to understand if there is any quantifiable metric internally that you will look at, let's say, or externally like collection efficiency before using it? Or it is fully subjective? And secondly, as things are today, let's say, things worsen slightly and your base case of improvement end of 3Q, early 4Q doesn't happen, do you think this Rs. 950 Cr odd that we are carrying, is that good enough for whatever stress could come up in microfinance?

Sachinn Joshi:

Yes. Thank you, Alok. This is Sachinn here. Yes, see macro-prudential provisions that have been created, this is based on a Board-approved policy. So, creation of macro-prudential provisions as well as utilization has to be approved by -- we need a sign-off of the Board. So, the way it has been defined is the macro-prudential provisions have been created to deal with specific events, events like flood, famine, political instability, industry-wide credit events. One of the events, which we saw was COVID. When we created this policy, we did not know that something like COVID would really happen. But yes, those are the kind of events, which cannot be modulated or modelled in our ECL -- are the ones which get covered. Sudipta talked about the increasing leverages. Now if the increasing leverage is into -- just limited to a particular geography, it's not an event. But if it's going to spread across the country, and it spreads across, the whole industry is going to get impacted, this also will get very clearly become part of a macro-prudential event. So it is -- we have to see -- we spoke about Bihar floods. At this point of time, the collection efficiencies have not deteriorated to a level where I really need to dip into these. But otherwise, that will be a clear-cut example of me being eligible to dip into it and get the Board consent to utilize it.

Alok Srivastava:

But Sachinn, just following up on that, that does that mean that only the part which has been impacted by an event, against that only you can use or you can use against the entire MFI book?

Sachinn Joshi:

No, we can't use it against the entire MFI book.

Alok Srivastava:

And second question I had was that the action that RBI took last week against four NBFCs, so have we had any communication on interest rate being charged by us? And also, does our MFI interest rate continue to be 24%?

Sudipta Roy:

No. See, our MFI interest is now around a band of 18% to 24%, the more mature that the customer gets. The starting interest rate is 24%, but the more mature a customer gets, especially in cycle 3 and cycle 4, the customer moves down the rate of interest. The second thing is that on our Personal Loans business, etc, we are focused on our prime customers where we give an interest rates from say 12% to a band of about 16%-17% is what we do. So no, we haven't received any communication regarding anything.

Sachinn Joshi:

See, 24%, Alok, was being charged for over a decade. And based on the MFIN guidance, in fact, everyone has moved into risk-calibrated kind of structure. So we have interest rates, which range from 18% to 24% depending on the riskiness of the customer, depending on whether the customer is in the first cycle, second cycle, third cycle, and her behavior, the interest rate gets decided.

Moderator:

Next question comes from the line of Shreepal Doshi with Equirus.

Shreepal Doshi:

The question was on how are the collection efficiencies trending in states like Karnataka and Tamil Nadu for us? And any update for the trends in October month?

Sudipta Roy:

See, October month, let me be very candid. October month, as I said, we are holding at efficiencies of previous month. Except North Bihar, where we are affected by floods. In Karnataka, the collections efficiency, though we do not give out specifics, but at this time, I will give out. In Karnataka, our collection efficiency in September was 99.6%. And Tamil Nadu, our collection efficiency in September-24 was 99.45%. This is zero DPD collections efficiency.

Shreepal Doshi:

So, these are like -- basis June quarter, how are these like trending broadly?

Sudipta Roy:

As I said, I don't know there was one particular call, which I had said -- these are holding pattern. These are holding patterns, very stable.

Shreepal Doshi:

And sir, just one more question on this write-off. So what is our Board-approved write-off policy for the Micro Loan category?

Sachinn Joshi:

No, the Board approves the provisioning policy, which states that whenever the asset becomes 90-plus DPD, you need to provide 100% against the Rural Business Loans. The write-off policy is, as I mentioned earlier, is more of a technical issue. It's for the CFO office to decide based on the, it's more of a cash flow issue. Because once the asset gets written off that does not mean that the business stops following up for those collections. There is actually no difference as far as the collection team is concerned. The collection team continues to keep following, because 90 days is a small period that way, right, as far as Rural Business Finance is concerned. So the follow-up continues whether the asset has been written off. And there, in fact, every month we keep receiving monies even out of the asset, which has been fully provided for. So there are teams which actually work specifically on 90 plus. There are teams, which work on 30 plus, 60 plus. There are specific coordinated efforts made to ensure that there are -- we don't leave customer just because we have provided it in the book.

Shreepal Doshi:

And we don't consider that number -- the pool of customers, which have been written off or, say, which is 100% provided for, in collection efficiency?

Sachinn Joshi:

No, this is 0 DPD, as Sudipta just mentioned. It's a 0 DPD customer whose billings have been done and the collection out of those billings.

Shreepal Doshi:

Thank you, sir. And good luck for the next quarter.

Moderator:

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

Chintan Shah:

So, I just had a question again on the Rural Business Finance. So yes, as we don't give the segment-wise breakup of slippages, but if you look at the additions to Stage-3 for this Rural Finance Business specifically, for Q4FY24 and Q2FY25, so how much could be the rise in absolute number in percentage? If you could quantify that so that we would just get a sense, how much stress are also we're getting on our books. So, any rough idea on that would be helpful?

Sachinn Joshi:

See, actually, if you look at -- if you're wanting to know the stress on the book, you should actually look at Slide 17, which talks about 5.4% of the loan book of LTF is LTF plus more than 4 associations. And there, we have actually even given a further breakup of more than 4 association, 5 association, 6 association. So it will show very clearly that the pain level is pretty limited. And the reason why we've done this bucketing is also to ensure that I just mentioned earlier that we actually mark out in our system, the most leveraged customers, and the focus of the collection team is first to be the first one in the queue because if there are 6 lenders, I would want to be the first in the queue to go and collect. And this discipline that we maintain has actually helped us ensure that the collection efficiencies, though they have dipped, they have not dipped to the levels, which we see in the industry.

Chintan Shah:

And sir, if I heard it correctly, MD sir also mentioned that we would be working to enter into -- working on building the developer finance vertical, so apart from retail also, are we planning to venture into any other businesses?

Sachinn Joshi:

No. Not developer finance vertical. I'm saying that the developer basically the APF origination team, where basically, we work with developers as a channel to finance homes to retail customers. So developer channel basically. It is the part of the Home Loan channel working with the large developers.

Chintan Shah:

Sure, sir. So, nothing on the corporate side, yes?

Sudipta Roy:

No.

Chintan Shah:

Yes, that's it from my side. Thank you for the opportunity.

Moderator:

Thank you. Last question comes from the line of Gao Zhixuan with Schonfeld.

Gao Zhixuan:

Just some data keeping question. Do you mind sharing what's our interest reversal in our NII this quarter and also last quarter because the margin seems to be coming down there, I suppose. It should be somewhat affected by the increase in reversal.

Sachinn Joshi:

I mean you're referring to the yields or you're referring to the NIMs.

Gao Zhixuan:

The yield, right? The yield is coming down obviously because of some of the increase -- just trying to know the quantum of interest reversal in there.

Sachinn Joshi:

Sure. So as far as yields are concerned, the wholesale book was actually coming down dramatically over last 4 to 6 quarters. And as the book was moving more -- trending more towards retail, the yields were increasing. You would have noticed that last quarter and this quarter, especially, the wholesale book has broadly remained around the 4% level. 96% of the book now is Retail. So, what will actually move the yield positively or negatively will depend on the kind of disbursements we do. Because the Retail business comprises of various products, which are Rural Business Loan, which is perhaps the highest yielding product for us, and home loan and LAP is the lowest yielding. You would have seen that the disbursement this quarter have been more towards HL and LAP. We wanted to be conservative and do secured business and, hence, you see that the yield has got a bit impacted. Once the challenges in the micro loan segment actually comes down, we will see the disbursements firing up again. To support micro loan business, we also have personal loans, SME. These are the businesses. Micro LAP, which we have started also. Book is small. The potential to grow this secured book is also very high. So as we go forward, we will keep seeing the change in the yield within a particular band. And rather than talking about the yields because it is equally important to look at how the interest cost pan out. This quarter, we have been able to bring down the weighted average cost down by about 5 basis points, so 7.85% in the previous quarter has come down to 7.80%. So rather than looking at the yield, it's good for a company like us to monitor the NIM plus fee as a monitorable metric. And we have already communicated the band within which we would like to be, which is in normalized times about 10.75% to 11.25%. And in difficult times like these, perhaps between 10.5% to 11%.

Gao Zhixuan:

Got it, sir. I understand the mix part of disbursement. I just want to understand the interest reversal increased materially this quarter sequentially, that also impacted our yield temporarily a bit. I just wanted to understand that?

Sachinn Joshi:

Sorry, I did not get -- can you please repeat the question

Sudipta Roy:

Can you please repeat the question?

Gao Zhixuan:

Yes. So, I just want to understand the interest reversal increased materially this quarter sequentially, which also impacted our yield on top of the mix change in disbursement that you were talking about?

Sachinn Joshi:

Yes. So interest reversal..

Gao Zhixuan:

If you can quantify, if it's possible, please?

Sachinn Joshi:

Yes. Interest reversal impact would be about 5 to 6 basis points.

Gao Zhixuan:

And how much was that last quarter?

Sachinn Joshi:

Last quarter would be lower than this -- this slightly lower than this.

Gao Zhixuan:

Got it. And just last one on the Slide 17. I appreciate the breakup on the LTF plus external associations. Just want to understand for the 5% of this outstanding book, what's the collection efficiency there for the month of September?

Sachinn Joshi:

Which product you're talking about, collection efficiency?

Sudipta Roy:

No, I think he is talking about Rural Business Finance -- Sorry, the audio line is not very clear. So, we're just not able to get the full gist of the question. If you can repeat the question once again.

Gao Zhixuan:

Yes, sorry. I'm referring to Slide 17. So, we have about 5% of MFI book...

Sachinn Joshi:

Collection Efficiency in this particular segment for the month of September was about 97.5%-odd. So that bucket -- the buckets of the people more than -- you're asking collection efficiency of the bucket of people more than -- more than 4 associations. Is that the question?

Gao Zhixuan:

Yes, which is 97%, right?

Sachinn Joshi:

Yes, that's 97.5%.

Gao Zhixuan:

How much was that in June?

Sachinn Joshi:

How much was it in June?

Gao Zhixuan:

No, March. I just want to get a historical comparison?

Sachinn Joshi:

Yes. So, June, it was about same about 98.4%-odd. The March number, I don't have handy with me right now. Maybe we can give it to you offline.

Moderator:

Thank you. We have reached the end of question-and-answer session. I would now like to hand the conference over to Sudipta Roy for closing comments.

Sudipta Roy:

So, thank you, and thank you for joining the call. As I said on the beginning in the opening comments that we expect Q3FY25 to be as intense a quarter as Q2 however, what we are very confident about is that our teams are very, very well prepared and well equipped to take care of the challenges on ground.

In terms of our work on the 5 pillars, it continues unabated. We remain focused on ensuring, building our other lines of business with a focus on risk and ensuring great credit outcome in the coming years. I would like to qualify the phase that we are passing through as phase of inclement weather, rather -- and I would also like to reiterate that we, as an organization, are perfectly capable of dealing with this. So, we will work very hard to ensure a consistent outcome in Q3FY25.

And we will be happy to meet all of you on a one-on-one basis whenever time permits and allows us, to give a further granular view of our overall lines of business and progress. The other thing which I wanted to tell you is that on November 26, we have our first AI conference, where we will be sharing some of our developments on AI side as well, which we have implemented and including also our overall discussion on applicability of AI to BFSI segment. Registrations are open on www.ltfraise.com. And if your schedule permits, we would like you to register for it and attend the same. Thank you so much for attending the call.

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