May 7, 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 – Q4FY2024 and FY2024 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 Q4FY2024 and FY2024 financial performance and strategy update held on April 29, 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: 2024.05.07 15:42:09 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance Ltd.

Q4 FY24 & FY24 Earnings Call Transcript

April 29, 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 Q4FY24 and FY24 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Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the conference call.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 discussion 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 While all efforts would be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call.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 Q4 results presentation sent 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. I welcome you all to the Investor call for Q4FY24 and the close of the financial year 2024. 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 again 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 will be happy to take questions on the call.

Q4FY24 Highlights

I would like to start the call by sharing our satisfaction not only with the quarter's performance but also with the annual performance, wherein we have registered the highest ever yearly PAT of Rs. 2,320 Cr, a growth of 43% YoY. Moreover, we maintained a strong trajectory in our Q4 disbursements ending with an overall disbursements growth of 33% YoY and 4% sequentially over the Q3 festive quarter. Last quarter, I had emphasized about making our retail growth trajectory sustainable & predictable. In view of that we would like to conclude that our Q4 Retail growth performance has been extremely encouraging.

Lakshya 2026 Goals at Consol Level

Having met Lakshya 2026 goals at retail level in Q3FY24, we are re-orienting ourselves for convergence at the consolidated level by FY2026, as detailed in the last quarter. Accordingly, the new targets for Lakshya 2026 are as follows:

- Retailisation at >95%, against which we are at 94% in Q4FY24
- Retail book growth to be maintained at >25% CAGR. In Q4FY24, the growth stood at 31% 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 3.15% and 0.79% at the end of FY24
- On the RoA front, we are moving from tracking Retail RoA to Consol RoA in the range of 2.8%-3.0% as per our original Lakshya 2026 targets. Our Consolidated Q4FY24 RoA stood at 2.19% and annual FY24 RoA stood at 2.32% after an additional prudential provision about which I'll talk in detail subsequently. It is important to note that before the prudential provisions our unadjusted RoA for Q4FY24 stood at 2.63% and for FY24

stood at 2.43%. I would like to draw your attention to Slide No. 6 of the investor presentation where this has been delineated in detail.

Executive Summary:

I would like to quickly run you through the key highlights of our performance in Q4FY24 and for the full year FY24

- Highest ever annual PAT of Rs. 2,320 Cr in FY24, a growth of 43% YoY. The unadjusted figure before the additional prudential provisions stands at Rs. 2,432 Cr, a growth of 50% YoY
- Highest ever annual Retail disbursements of Rs. 54,267 Cr, growth of 29% YoY
- Highest ever quarterly Retail disbursements of Rs. 15,044 Cr, growth of 33% YoY. Well-tuned acquisition engines ensured that the Q4 disbursements exceeded that of the festive Q3 quarter
- Retail book crossed the Rs. 80,000 Cr milestone (Rs. 80,037 Cr), up 31% YoY
- As shared in the last 2 quarterly updates, the 5 Pillar strategy continues to be central to our roadmap to the future. The organisation continues to granularly execute the 5 Pillar strategy, details of which are available from Slide No. 11 of the investor presentation
- Sustained focus towards improvement in credit parameters across businesses ensured Consol. GS3 and NS3 numbers coming down by 159 bps to 3.15% and by 72 bps to 0.79%, respectively at the end of FY24. The Provision Coverage Ratio (PCR) currently stands at a comfortable 76%, up from 69% during the same period last year
- The company continues to focus on strengthening IT and information security infrastructure, risk management and business controls while building a strong compliance culture supported by a robust governance framework

Macro-economic outlook:

I would like to give you some flavour on the Macro-economic scenario and prospects of monsoon before proceeding to the 5 pillars of our execution strategy.

As far as the Global economy is concerned, growth forecasts for 2024 have been raised in recent months by multilateral organisations and rating agencies during Q4FY24. It will however have to be seen how the troika of global indicators (US Treasury yield, Dollar Index and Brent crude), which are hovering around their six-month high levels and the geopolitical tensions in the middle east evolve during the course of the year.

The country's GDP growth rate for FY25 is projected to remain strong at 6.8% aided by continued strength in domestic demand. Production indicators especially in non-agricultural sectors posted strong growth during Q4FY24, led by strongest manufacturing output in nearly three & a half years. However, pockets of concern remain around the 'unevenness' in consumption recovery during Q4FY24. As far as the premium consumption demand in the economy is concerned, it continued to remain strong in Q4, but demand for goods & services of mass consumption remained subdued. On the inflation front, retail inflation dropped from 6.42% (avg) in Q2 to 5.01% (avg) in Q4 on the back of a significant drop in core inflation aided by a tighter monetary policy. However, food inflation continues to remain sticky and will have to be monitored.

On the monsoon front, IMD has predicted a high probability (61%) of above normal south-west monsoon rains in 2024 with La Nina conditions likely to develop during Aug-Sep'24. Some areas in Northwest, East & Northeast are likely to receive below normal rainfall. The timely arrival and temporal & spatial distribution of monsoon rainfall will have to be closely monitored especially given the backdrop of precarious water reserves in the southern and western regions. The ongoing weakness in rural demand is likely to spill over into H1FY25 due to probability of uneven monsoonal rains and decline in crop output in FY24, as per ICRA. Urban consumption is projected to remain upbeat in FY25, though uneven.

To conclude, a few challenges still persist in the NBFC sector in FY25, namely - access to funding at competitive rates, tight liquidity conditions and the 'higher-for-longer' global policy rate regime and elevated competitive pressure especially from other competitors in the market. We will continue to keep a close watch on the emerging scenarios, across products and customer segments to shape our policies and chart out the future course of action accordingly.

Double Click on the 5 pillars of execution:

As I mentioned earlier, I would now like to dive deeper into what we call the '5 pillars of execution' which will help us in creating a sustainable & predictable retail franchise.

1. **Customer Acquisition -** As I mentioned in the last call, we have started executing on deepening the customer acquisition funnel both, horizontally which means greater geographical coverage as well as vertically which means greater counter share at dealer points. For instance, the number of new villages / zero disbursement villages activated for Rural Group Loans & MFI stood at 21,524 in Q4FY24, which is a sequential increase of 66%. Similarly, our Two-Wheeler distribution points increased to 10,711 from 9,501 in Q3FY24, which is a 13% increase. This granular distribution surface area increase has actually enabled us to maintain the Two-Wheeler disbursement momentum in Q4FY24 as against the peak festive quarter in Q3. We have given out details for all relevant lines of business in slide nos. 12 & 13 of the investor presentation.
2. **Sharpening Credit Underwriting -** Building next generation credit underwriting models has been one of the most important focus areas for L&T Finance. The work on the next generation digital credit engine has progressed at a satisfactory pace and we expect the Beta version to be deployed in production towards the latter part of Q1FY25. This in-house proprietary risk engine would underwrite customers on a multi-dimensional axis while ingesting bureau, account aggregator and alternate trust signals at scale using ML-based ensemble scorecards built after extensive analysis and overlay of historical credit performance data on all the axes. The initial back testing of credit performance data on the efficacy of the models has been extremely encouraging. We are confident that this engine would add significantly to the underwriting depth of L&T Finance and help create a deeper moat in our fulcrum businesses.
3. **Futuristic Digital Architecture -** We are committed to becoming one of the pre-eminent technology driven lenders in the country. Our technology efforts are divided on 4 quadrants, namely designing superior customer experience, digital process engineering, augmenting IT infrastructure and strengthening information security. In the last quarter, we improved on our digital journeys of our Personal Loans, Home Loans and Two-Wheeler businesses. We migrated our SME business to Salesforce from a legacy platform. BRAKE App, our in-house collections application went live this quarter. We have started working on a revamped customer portal and the next generation of our Planet App, which has now crossed 9 Million downloads.
4. **Brand Visibility -** The objective of investment behind brand visibility augmentation is to capitalize on the already strong recall of the mother brand Larsen & Toubro and build customer mindshare for L&T Finance in our operating lines of business. We are hopeful that the increased brand awareness will lead to L&T Finance's products finding its way into the customer's consideration set and result in higher sales and customer retention. In the last quarter, 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.
   During the quarter, we also launched our Sonic identity for better subliminal brand association and recall. Those on the call would recall that the holding tune you heard is our new sonic identity that we have launched recently. You will see widespread use of this sonic identity and various upcoming versions of it, both internally for the people within the organisation as well as externally for existing & prospective customers. We will be launching integrated marketing campaigns for some of our focus products in the coming months and they will be visible in the market soon.
5. **Capability Building –** In terms of capability building, we have strengthened the LTF leadership in critical functions in the last quarter and have created a strong advisory framework. We have inducted leaders with significant experience in their respective domains with a track record of successful results delivery. To sharpen the focus of the organisation on technology and data driven business delivery with a sharper consumer recall we created and filled the positions of Chief Digital Officer, Chief AI & Data Officer and Chief Marketing Officer, with senior veterans. In order to strengthen the advisory framework in critical areas we have onboarded

seasoned industry professionals with successful track records to add fire power to our teams. Please refer to slide no. 20 of the investor presentation for their detailed profiles.

Update on the Wholesale Business:

Now, I would like to give you an update on the Wholesale business and the related investments in Security Receipts with ARCs.

As many of you will recall, since the launch of Lakshya 2026 strategy in April 2022, the Board in order to pivot towards Retailisation, had in Q3FY23 decided to change the business model in Wholesale to enable an accelerated transformation. The wholesale assets were reclassified from Amortized Cost to Fair Value Through Profit and Loss. In line with this, a fair valuation of the Wholesale assets was conducted by an independent valuer.

Given a shift to accelerated sell-down of the Wholesale book, it was envisaged that certain illiquidity discounts were to be given to potential buyers during the sell-down process. To give effect to this, the Wholesale book was fair valued down by Rs. 2,687 Cr in Q3FY23.

Apropos to the above, I am pleased to share that the Company was able to sell down/ reduce the on-book Wholesale portfolio successfully from Rs.38,058 Cr at the end of Q2FY23 to Rs.5,528 Cr by the end of Q4FY24. This has resulted in a decisive reduction in Wholesale assets by Rs.32,530 Cr, thereby bringing down Wholesale as a % of portfolio from 42% in Q2FY23 to 6% by the end of Q4FY24.

Now, with the on-book Wholesale portfolio reduced to substantially low levels of ~Rs.5,500 Cr through sell-down and repayments of Rs 1,821 Cr in Q4FY24, the Fair Valuation exercise as on 31st March 2024 yielded a release of Rs.546 Cr. As an additional information – we are pleased to share that that the on book Wholesale portfolio has further reduced to Rs 4,400 Cr on account of further repayments subsequent to March 31, 2024.

As of March 31, 2024 we are carrying investments worth ~Rs 7,500 Cr in the form of Security Receipts of various Asset Reconstruction Companies (ARCs). As you are aware, these represent loans we have transferred to ARCs to expedite resolution. These pertain to exposures in Real Estate, Infrastructure, etc. Owing to improved macro-economic conditions in India and specifically in the case of Realty, increased buoyancy in the commercial & residential real estate sector, resolution pathways of various assets in our SR portfolio are now visible. We are also seized of the fact that such resolution processes carry a possible ‘sequencing risk’, wherein accounting markdowns of NAVs of certain security receipts may be required temporarily before reckoning higher realisations from other project assets resulting in a net gain for LTF.

To minimise the possibility of above variations on a quarter-on-quarter basis arising out of this ‘sequence risk’, the Company has created additional prudential provisions of Rs. 721 Cr comprising Rs. 546 Cr released on account of fair value changes in the Wholesale loan book and an incremental amount of Rs.175 Cr created through P&L. This additional provision of Rs. 721 Cr would take the overall PCR on the Net EAD value of SR portfolio sold to ARCs to ~55% post this exercise. The provisions created during the quarter of Rs. 721 Cr constitute approximately 10% of the Net carrying value (fair value) of the SR portfolio investment in the books of account as of March 31, 2024 of ~Rs. 7,500 Cr before taking this provision. We are confident that LTF, over the next few years would eventually collect a surplus over and above the net SR carrying value in the books today.

With the Wholesale book coming down to a negligible level of 6%, the management would now continue its focus on growing the retail book as well as engage with ARCs for expeditious resolution of the SR book. Thus, we are confident of replicating the success of reduction in our Wholesale book to our SR portfolio without any further markdowns, in fact, our team is hopeful of achieving a surplus in this regard.

ESG@LTF

Finally, I would like to talk about ESG at L&T Finance. The Company has worked extensively in this area over the last few years. During FY24, our ESG rating saw an improvement from ‘BBB’ to ‘A’ from MSCI and moved from the previously B management category to A- leadership category with CDP. We hope to continuously improve our performance in this domain as a responsible corporate citizen.

Now, I handover to Mr. Sachinn Joshi who will take you through the financial updates for the quarter.

Sachinn Joshi:

Financial Updates:

Thank You, Sudipta. As always, let me walk you through the financial performance of the company for the quarter & year gone by.

Quarterly Performance:

- Consol NIMs + Fees remained strong at 11.25% owing to change in portfolio mix to Retail and WAC remaining stable on a sequential basis on account of astute liability management
- Highest ever quarterly retail disbursements of Rs. 15,044 Cr, up 33% YoY, achieved in a non-festive quarter
- Retail book crossed Rs. 80,000 Cr milestone (Rs. 80,037 Cr), up 31% YoY buoyed by the increased demand from both the Rural and Urban segments alike
- Consol PAT at Rs. 554 Cr (up 11% YoY)
- Consol RoA at 2.19% (up 29 bps YoY)
- Consol RoE at 9.53% (up 16 bps YoY)

Annual Performance:

- Consol PAT at Rs. 2,320 Cr (up 43% YoY)
- Consol NIMs + Fees remained strong at 10.67%
- Highest ever annual retail disbursements, Rs. 54,267 Cr, up 29% YoY
- Consol RoA at 2.32% (up 79 bps YoY)
- Consol RoE at 10.35% (up 256 bps YoY)

Retail Businesses:

Rural Business Finance

The business registered highest ever quarterly disbursements of Rs. 5,768 Cr (up 31% YoY) along with highest ever annual disbursements, which stood at ~Rs. 21,500 Cr (up 27% YoY). The book size crossed Rs. 24,000 Cr milestone in this quarter. We also achieved the highest ever monthly disbursement of Rs. 2,124 Cr in Mar'24, with 33% business volumes coming from LTF exclusive customers. The growth in this business was aided by a strong focus on strengthening customer retention coupled with a renewed focus on new customer acquisition.

Farmer Finance

In Farmer Finance, disbursements stood at Rs. 1,530 Cr in Q4FY24. This led to the book size reaching Rs. 13,892 Cr, reflecting a growth rate of 8% YoY, A strong business momentum was maintained in this segment during the year despite a de-growth witnessed in the industry.

Urban Finance

The segment, which comprises of Two-Wheeler, Personal Loan and Home loans / LAP businesses, saw a 32% YoY jump in overall quarterly disbursements and a 22% YoY jump in overall annual disbursements. As a result, the overall booksize increased from Rs. 27,841 Cr in Q4FY23 to Rs. 36,089 Cr in Q4FY24, translating into a 30% YoY growth.

Let me now take you through individual businesses:

- **Two Wheelers:** The Two Wheelers business registered disbursements of Rs. 2,502 Cr in the quarter, which is almost equal to the disbursements made in a festive quarter (Q3FY24 disbursement at Rs. 2,540 Cr). The disbursements were up 45% from Rs. 1,727 Cr in the same quarter last year. The growth for the segment was additionally driven by geographic penetration, maintaining a strong focus on customer value proposition and building preferred dealer / OEM relationships to grow market share. The book size crossed Rs. 11,000 Cr milestone (Rs. 11,205 Cr), up 25% YoY. Additionally, focus remains on continuously increasing the Prime & EV segment owing to deepening & new tie ups with leading industry players

- **Personal Loan:** This business witnessed disbursements worth Rs. 968 Cr, (Rs. 1,322 Cr in Q4FY23) and the book size stood at Rs. 6,440 Cr, an increase of 18% YoY. Growth was calibrated in this business driven by a well thought out strategy of revamping policies and risk guardrails

- **Retail Housing:** Moving on to Housing, it achieved the highest ever quarterly disbursements at Rs. 2,513 Cr, up 70% YoY (Rs. 1,998 Cr in Q3FY24). The book size crossed Rs. 18,000 Cr milestone (Rs. 18,443 Cr), an increase of 38% YoY. We also hit a monthly disbursement milestone of Rs. 1,000 Cr in March. Sustained business momentum in the business through strategic measures like deepening geographic presence, solid DSA and channel partnerships & increasing customer retention.

- **SME Finance:** Our Q4FY24 disbursements stood at Rs. 1,213 Cr. The month of March also registered the highest ever disbursement of Rs. 458 Cr. The book is inching towards Rs. 4,000 Cr milestone quickly (Rs. 3,905 Cr as of Mar'24). Strong growth in business volumes aided by geo-expansion, deepening channel partnerships and focus on providing superior value to our customers.

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

Sudipta Roy:

Thank You, Sachinn. In conclusion, I would like to say that we are optimistic about the potential that the company holds. We are making ourselves future ready by continuously upgrading our capabilities across all domains. Our core business franchise stands in best shape, which is evidenced by the numbers posted by us, along with the highest ever PAT on a full year basis. We've already started Q1FY25 on a great note and I am confident that in FY25, our robust performance trajectory will continue.

Thank you all for your patient hearing. And we now open the floor for questions.

Moderator:

The first question is from the line of Digant Haria from GreenEdge Wealth. Please go ahead.

Digant Haria:

Team, congratulations for the good performance and good to see the top-level team getting beefed up in different areas. So, my questions are twofold. One is, that this exercise of reevaluating the SR and the provisions that we took on it, like will this keep on happening once a year or once a quarter, what will be the frequency of this exercise?

Sudipta Roy:

So as of now, we have done it this quarter. And so, as I said, because of the increased buoyancy in the Real Estate sector, resolution pathways of many of - some of - these assets in the SR portfolio is currently visible. And we'll keep on working on sort of during the year as well as the course over the next couple of years, trying to resolve those assets. Though we will sort of, obviously, reevaluate in terms of the SR portfolio, like with every passing quarter, but we believe that at the end of the resolution period, we should get a surplus. And the provision that we have taken against this should take care of any sequence risk.

So, the reason that we have taken the provisions is to address the sequence risk that might come as we work on the resolution process. And we do believe that, that should be enough to sort of smoothen out any sort of quarterly variations in terms of NAV markdowns on the resolution process that might happen. One asset might get resolved this quarter giving a slightly lower resolution. But the next asset that might get resolved the next quarter might give a higher resolution resulting to overall surplus gain.

So, this process will continue. But what we are very, very confident about is that the provision that we have taken as of the exercise at this quarter is sufficient enough as far as the information available with us at this point in time to sort of smoothen out any sequence risk and protect the P&L from any variations that might arise on a quarter-on-quarter basis.

Digant Haria:

My second question is, on the credit cost, that in FY24, we ended up with roughly Rs. 2,000 Cr of credit cost on the Retail portfolio. So, you mentioned a few headwinds in terms of monsoons, which could probably be uneven, then the consumption patterns, which are uneven. And for us at L&T Finance, we are more indexed to that part of the consumption, which is slightly more impacted. So, do you see credit costs inching up for FY25? Like maybe we were at an average of 2.5% to 3% credit cost for the last year. Will that go up? And another reason is that micro finance had 2 great years and probably the normalization of credit cost in that business should also happen. So, any guidance here would be really appreciated.

Sudipta Roy:

Yes. So, Digant, I would urge the wider investor community to look at between slide 15 to 17. So, 2 things

1) First and foremost thing, we have said as part of our 5-pillar strategy, our second pillar is improving - our credit administration framework. And as we have said that we are building a new generation credit engine, which probably will sharpen our credit underwriting capacity. So that's the first thing.
2) The second thing is that our credit costs have been -- our credit metrics have been pretty stable. And we are -- especially on the urban side, especially in the high-velocity businesses like Two-Wheelers, we're actually working on improving our credit metrics, which is balancing the portfolio with a right and optimum mix of New To Credit customers as well as prime customers.

If you see in slide 16 of our investor presentation, we have given the premium share of our Two-Wheeler originations have gone up by almost 9 percentage points this quarter from 41% to 50%. So, on one hand, we are trying to balance the portfolio acquisition to make it far sharper and cleaner and far more predictable. From a credit standpoint, we're investing in building our next-generation credit models, which will sort of bring our credit cost on a stable trajectory. And as you can see on the metrics, the index delinquency metrics or index trade performance metrics that we have given from slide 15 to 17, you can see that we are trending far lower when comparing industry metrics. For example, if you see Rural Group Loans and MFI business, if the industry metric is at about 100% delinquency on 12 month-on-book on an ever 90 plus, we are at 1/3rd the industry risk costs on that.

If you look at our Two-Wheeler business, we are at about 81% of industry sort of risk metrics. In our Farm Equipment Finance, we're about 85%. In our Loan Against Property, we're at about 50%. So, in all lines of business our credit metrics are much better than the industry. But as an organization, we are focused on bringing it far, far down by, again, as I said, building the new age credit models as well as improving the through-the-door credit quality acquisition. So, to answer your question or to summarize what, a little bit of a long-winded answer, is that, we are working on keeping our credit costs on a downward trajectory. And we are hopeful that we should be able to achieve that even if some of the environmental conditions might be a little uneven during the earlier part of the year. We are hopeful that by August and September, we'll have a normal monsoon. The indications are there that we'll have a normal monsoon. As you know, normal monsoons typically smoothen out credit kinks to a large extent, especially in the rural economy. So, we remain hopeful that normal monsoons also will aid us in improving our credit metrics going forward.

Sachinn Joshi:

Digant, I just wanted to add one more point. The credit cost, in terms of trajectory, you are referring to 2.4% that we have. I think it will be somewhere in the range of about 2.25% to 2.5%. That's the internal plan. Secondly, on the Rural Business Finance, the Micro Loans piece that you were speaking about, we had created macro prudential provisions of Rs. 975 Cr, during Covid times. And you would see from the presentation that we are yet to use it. In fact, the total provisions, including macro prudential, additional provisions on Stage 1, Stage 2 as well as OTR provisions totaled to about Rs. 1,200 Cr. We have ensured that we have till date not utilized a single rupee out of that. We have been very, very conservative trying to retain these buffers on the balance sheet. Our PCRs are perhaps one of the best in the industry. We have a PCR of 76% on an aggregate basis. And when it comes to Retail book, it's 79%. And so, we have been providing enough and more. And we believe that the credit cost trajectory, as Sudipta mentioned, with focus on going more towards prime, we will be able to hold this.

Digant Haria:

Right, back from Microfinance where you're over provided to compensate for the SRs in the corporate portfolio, so that was very good to see and thanks for detail explanation. My one final last question is, Sudipta, you mentioned that competition is still very high. While, it would be intuitively -- we would see that RBI is clamping down on one or the other institution for just growing too fast and the funding environment is tight. So, are there signs that this competition is cooling off or you really don't see anything cooling off in the near term?

Sudipta Roy:

See, competition is quite robust, I would say. So, the fact is that everyone is vying for a share of the customer pie. Obviously, on one hand, the customer pie is expanding in the country because as more and more people come into the consumption fold -- but the fact is that, yes, the competition -- there is market opportunity, but there is also competition. I think it is important for us to sort of focus on how efficient we are in garnering the share by intelligently investing in technology, processes that simplify our acquisition processes as well as making sure that our credit cost or the credit trajectory remains stable because it's very important to have a very stable and a predictable growth trajectory, both in terms of growth and maintenance trajectory in acquisition as well as maintenance of credit cost trajectory for you to keep on growing.

So yes, competition is intense, but as an organization because of our investment in our people, because of our investment in our technology, because of our granular presence across the country and the focused increase and focused execution that we are doing in terms of, as I said, increasing the surface area of our distribution, we are hopeful that we will probably be mopping up a larger share of the available pie even in face of the competition. But yes, to summarize, competition remains strong, but we are confident of dealing with it.

Moderator:

The next question is from the line of Mahrukh Adajania from Nuvama Wealth.

Mahrukh Adajania:

My first question -- sorry, I guess there's only one question allowed. So, the question I have is on the SR revaluation. I guess if I'm -- correct me if I'm wrong, you mentioned that you have a 55% PCR on SRs, is that what you mentioned?

Sachinn Joshi:

Yes, that's right. That's right.

Mahrukh Adajania:

So then, that would be around Rs. 38 billion provision, right? But the original wholesale buffer was Rs 27 billion, and the incremental you made this quarter through P&L is around Rs 2 billion – Rs 1.8 billion, so that kind of adds up to Rs 28.8 billion, right? So, you have provisions over and above that also, is it Wholesale provisions over and above that also?

Sachinn Joshi:

Yes, Mahrukh, let me take this. So, we had actually -- let me first speak about the Wholesale book. The Wholesale book now is down to Rs. 5,500 Cr as of 31st of March. And post March, again, about Rs. 1,100 Cr have gone. So, it's about ~Rs. 4,400 Cr. The provisions of Rs. 2,687 Cr were taken in Dec'22. And every quarter, we have to do this fair valuation. There is no choice under Ind AS, whether it's SR investments or whether it's a loan book, we need to do a fair valuation.

Mahrukh Adajania:

The credit rating driven fair valuation.

Sachinn Joshi:

That's right. That's right. So, we have -- we were continuously doing it. When we made this fair valuation exercise and Rs. 2,687 Cr was the output, which came out of that valuation based on certain discounting factors because the book was very large. And how the book will behave was for anyone to guess. But last 18 months, we have seen this Rs. 38,000 Cr come down to Rs. 5,500 Cr. So, with the behavior and also the quantum of assets, which are left on the balance sheet, that was -- again, fresh valuation was done, which led to our -- and also, there were some resolutions also which happened during this quarter. So, a net amount of Rs. 546 Cr. So whatever assets are already there on the books, the fair valuation has been done and whatever provision requirements were there have already been factored into that.

The balance amount of Rs. 546 Cr was what got released. One option for us was to take it to P&L. But simultaneously, as Sudipta mentioned on the call, there was an exercise, similar exercise, which was undertaken on SR just by stressing the portfolio because on a normal basis, even the investments have been fair valued. As he explained on the call, it was only the sequencing risk, which was looked into just at the time of stressing the SR investment portfolio. And that gave a requirement of Rs. 721 Cr. Now Rs. 721 Cr was to be provided and there was a Rs. 546 Cr release, which came from the loan book. The difference of Rs. 175 Cr was the impact, which we took on the P&L. So that's how the Rs. 721 Cr has been accounted for.

To your question on the assets, which are on the balance sheet right now, the loan assets, they are fairly provided, and we believe that there is not going to be a single rupee requirement even if we want to liquidate those because these are standard assets, which are giving us a reasonable yield. So, unless there is interest in these assets from someone without any impact on the P&L, we would not -- we would want to continue with this asset book. I hope this clarifies.

Mahrukh Adajania:

No. I just wanted to check one thing, basically, you said that the PCR on SR, so the SR book net stands at around Rs. 70 billion, Rs. 67.8 billion is the calculation, right? You said that, it was -- yes...

Sachinn Joshi:

That's right, yes.

Mahrukh Adajania:

So, it's 50%, say, roughly, it's Rs. 35 billion, okay? Now so the PCR on the SR book is Rs. 35 billion, and that's...

Sachinn Joshi:

No, no, Mahrukh. Let me explain on the SR now. Our total SR book, which was -- the net EAD was ~Rs. 15,000 Cr when it was on my book, okay? That Rs. 15,000 Cr, we provided Rs. 8,300 Cr in all. And this Rs. 8,300 Cr includes Rs. 721 Cr. So, Rs. 8,343 Cr to be precise on Rs. 15,000 Cr gives you a PCR of 55%.

Mahrukh Adajania:

The gross value. The gross value.

Sachinn Joshi:

Yes. That's the gross value. Rs. 6,770 Cr is net on the balance sheet now after all the provisions. So, the provision that we have made is Rs. 8,300 Cr.

Mahrukh Adajania:

Okay. And that subsumes the Rs. 2,700 Cr provision on the Wholesale book, right?

Sachinn Joshi:

See Rs. 2,700 Cr was taken on the loan book, which was on the balance sheet, okay? There were a few assets where the provisions were taken and a few of them moved to the ARC. So yes, there could be part of Rs. 2,700 Cr, which would have been absorbed by these assets as well.

Moderator:

Next question is from the line of Alok Srivastava from UBS.

Alok Srivastava:

Sudipta, I have a question on the customer acquisition number that you have given, the 6.8 lakh that we have done during the quarter. So how does it divide between rural and urban? And within urban, what is driving this acquisition? Is it coming from aggregators or Two-Wheeler, where most of the acquisition is coming from?

Sudipta Roy:

Yes. So, in terms of customer acquisition, the fact is that we have a couple of major engines of customer acquisition. Obviously, the first major engine of customer acquisition is our Rural Group Loans and Micro Finance business. And also, in rural because the fact is that in Farm business or tractor business, the numbers are not very large. So finally, the large numbers come from our Rural Group Loans and Micro Finance business. And in urban, the main actually customer acquisition driver is our Two-Wheeler business. So, these are the 2 major, in terms of volume, customer acquisition drivers. As you know, the Personal Loan disbursement is small. So, I would say 60-40 division now, maybe a 55-45 division, where 55% is coming from our rural businesses and about 45% is coming from our urban businesses. Urban, primarily driven by Two-Wheelers and rural, primarily driven by Rural Group Loans and Micro Finance. But obviously, the objective is to increase this going further. So that is why I have talked about increasing the horizontal surface area of distribution as well as vertical distribution.

So, we are continually operating on and tracking on that. You saw that we gave out of the number of approximately 21,000 new villages activated during this quarter and our Two-Wheeler distribution points going up to greater than 10,000. So obviously, the focus is on increasing both horizontal and vertical distribution, and we intend to keep a focus on this metric as a very granular metric going forward.

Alok Srivastava:

Okay. That's fair. If I can just follow up on that one. So, on the urban side, Sudipta, maybe you don't have that many products to do that vertical expansion right now, so what is the product strategy that you guys are thinking of going forward? And do you think you can do some co-branded credit card, consumer durable, those kind of products?

Sudipta Roy:

I'll tell you the focus of the organization right now is to sharpen what we are doing. So, we will continue this strategy for the next couple of quarters. As it is on a Two-Wheeler business, our business, if you look at our distribution momentum in our Two-Wheeler business, our distribution momentum on our Two-Wheeler business is quite good. And we increased the disbursement of our Two-Wheeler business significantly over what we did in Q2FY24. And our Q4 disbursements of two-wheelers actually has been almost equal to our festive quarter disbursement. So as of now, for the next few quarters, we'll focus on sharpening our existing line of business and building scale in our existing line of business. And after that, as and when the need may be, we will probably look at new products.

Moderator:

Next question is from the line of Avinash Singh from Emkay Global.

Avinash Singh:

A couple of questions. The first one is on your Personal Loan. If you can just help us clarify some breakup between what part is your cross-selling to your own customers? And how the trend over the quarters have been with the fintech partnership? And any sort of delinquency trends in both your own cross-sell as well as the partnership? That's the first. And second one now, if we see your geographic expansion or rather point of presence is increased and expansion continues, in this backdrop and, likely, I mean, from the current level, growth will possibly moderate going into next year, how do you see sort of a cost-to-income ratio moving?

Sudipta Roy:

Yes. So, if I were to draw your attention to the slide 13 of our investor deck, where we have given our personal Loans to existing customer number. And you can see that in Q2FY24, we have about 47%, which have actually pushed to 60% in Q4FY24. So, to answer your question, 60% of our Personal Loans is disbursement to our own existing customers. And the remaining is from channel originated, new to origination customer, which is either through e-aggregators or we have just started our DSA distribution model as well in Personal Loans in the last quarter. And we will obviously keep a very sharp eye on the credit quality of the portfolio that we do. And we are -- and I would like to put it on record that we, as an organization, are not into the small ticket personal loan space. We operate in the prime and near prime segments in this space. And we are very focused on the risk outcomes of this business. And also, very focused on digitization and very effective cost of delivery of this business. So as of now, we are like trending to close to about last quarter, the business has seen a slight uptick over the numbers that we have posted in Q3FY24. But going forward, as many of our sort of fintech partnership engines come on stream, you will see a growth in numbers of disbursement of Personal Loans.

But again, I would like to put on record that our focus remains majorly on doing Personal Loans to our own customers as well as for New To Organization customers, focus more so on the salaried segments of personal loans, which we believe are of a far lower risk profile and more stabler risk profile than maybe any other segments.

So, this is the first part of your question. The second part of your question was in terms of distribution. Yes, so in terms of distribution increase, we obviously are cognizant of the fact that the -- see, we have -- again, the question is that India is a very large country. And even in businesses that are of significant size like our Micro Loans business or our Two-Wheeler business, there are reasonably large swaths of the country where we are still yet to build our distribution to scale. In some states, we are number one or number two positions. In some states, we are not in those two positions. So obviously, our focus is to increase distribution in those states, in those geographical areas where we are probably a little lower down the pecking order in terms of positioning. So, our focus is on that. Our focus is to make sure that we -- in the Two-Wheeler business, at least we are present in about 85% to 90% of the distribution universe. And right now, I would reckon that we are about 75-odd, so there is some distance to go on that. So, there is some work for us yet left to do before we say that we have saturated distribution. And I'm sure that as we start increasing our distribution, some of those distribution gains in terms of customer acquisition will be visible in our portfolio.

Sachinn, on the cost to income ratio, you want to take it?

Sachinn Joshi:

So, on the cost to income rather than talking about cost to income, we have in our previous calls also spoken about the trajectory that we want to have in terms of cost to book. And we had said that if you look at the overall RoA tree, we're talking about NIM plus fee of about 11% and opex plus credit cost being restricted to 7%. You can notice that we are about that range at this point of time during Q4.

Whatever savings we have, because we are actually trying to move the credit cost down to about 2.25% to 2.5%, but this is also the time that we are making huge investments on technology, people, setting up of new businesses. We have rolled out new branches for the new businesses that we started off last year in the SME. Personal Loans is also absolutely digitized product where lot of investments have gone into IT. So, all these -- whatever savings we get on the credit cost, the intent is to actually apply that money towards the investment in new technologies as well as manpower. Going forward, we believe, at this point of time, the cost income ratios are in the range of 40%- 41%. As the businesses start picking up, the last 2 quarters we have seen the balance sheet growing. The Wholesale book reduction has more or less got completed. There will not be any significant reduction going forward. So, you will see the balance sheet growing. And the top line also will start growing because the reduction of Wholesale book, which was at a lower yield is now getting replaced with the Retail, which is at a much higher yield. So automatically, all these get factored into when you look at the cost to income ratio. So, moving forward, we should start at least over the next 15 to 18 months, investments would continue. So, I think the best barometer is to manage the overall opex plus credit cost within the range of 7% when it comes to cost to book.

Moderator:

Next question is from the line of Kunal Shah from Citigroup.

Kunal Shah:

So, first question is, we indicated that the focus is to sharpen the existing businesses. But when we look at Lakshya 2026, I think we are well ahead of the targets, which are laid out. So maybe how should we look at it, would we want to maybe have a revised targets getting 6 months, 1 year down the line? Or we would broadly stay with this and just improve the quality within this framework?

Sudipta Roy:

So, Kunal, my answer to that question is that we would like to broadly stay within this framework and the fact is that we would like to improve on the predictability of earnings and our predictability of AUM growth because, as you know, I have -- we have articulated the 5-pillar strategy. We still remain in execution mode on the 5-pillar strategy. We believe that we have a long way to go in sort of fully executing the 5-pillar strategy. And as and when we execute the 5-pillar strategy, the gains from that execution will be visible in the business, either in terms of top line growth, in terms of AUM growth or in terms of bottom line/credit cost parameters.

So, we would not like to defocus ourselves over the next couple of quarters and try to sort of sharpen every line of business and granularly focus on executing the 5-pillar strategy. So as and when we think that we are in a state of completion of - which will obviously take -- the path we will take - a couple of quarters going forward. We are in a state of completion at that point in time, we will probably look at whether we want to sort of reset ourselves and reorient ourselves to new targets. Until then, we remain focused on these Lakshya targets and, again, improving predictability of our metrics on a quarter-on-quarter basis.

Kunal Shah:

Sure. And marketing costs would not have much of an impact? Maybe would there be more of a front-loading of the cost because across the board we have seen wherever there is more focus on branding, marketing, there is some front-loading of the cost, and we see maybe the opex have been as in few quarters, do we expect the same or it will be more balanced?

Sudipta Roy:

See, it's not that our investments will be only in marketing, our investments are in marketing, our investments are in people, and our investments are in IT, primarily. These are 3 sort of axes of our investment. Obviously, there will be some investments in marketing. But I do not think that they are extremely high investments. I think they are reasonable investments. What we have factored in, we, for example, just finished our overall brand research for the entire organization where we have granular details as to which areas we need to invest in order to improve the recall of L&T Finance brand. And as I've said in the -- previously in the call that over the next couple of months, you will see more presence of L&T Finance product focused advertising in the market.

So yes, there will be some investment in marketing, but I would say investments in marketing, people, technology, etc., are equally paced. And as Sachinn said, we have said that our opex plus credit cost from a -- we would try to sort of guide towards a 7% range, and that is where we will try to focus on meeting that particular number. We do believe that our investments in marketing as well as building brand recall to make L&T Finance, a preferred choice in the mind of the customer will have to be sustained for a couple of quarters, post which we will look at sort of tempering that down and bringing it to far more normal levels

Kunal Shah:

Okay. Great. Great. And just one clarification. This entire SR valuation exercise that was more internal independent rather than anything coming in from the ARC valuation?

Sudipta Roy:

Yes, so it was more internal independent. And the fact is that while we met a lot of investors, we felt that this was an area we needed to address. And so, we did an exercise in last quarter. And basis the inputs that we got from that exercise, we have taken the action, as Sachinn explained in great detail in a previous question. So that is what we have done.

Kunal Shah:

And no risk of reassessment on Retail for sure? And this was only on the Wholesale, which was required? But Retail since we are strengthening the credit filters, there is no risk at any point in time there would be reassessment and provisioning build-up even for the Retail at some point in time?

Sachinn Joshi:

Kunal, like I said, even for the ARC piece, actually, the NAVs come from the credit rating agencies. So, what we did was, we have actually taken this at a portfolio level. So Rs. 721 Cr has been taken at a portfolio level and not at the asset level because asset level already is based on the NAV. So, I can't take anything more than that. They are already fair valued. This is keeping in mind the future that if there are any kind of variation or volatility as the SR start getting resolved, this is going to take care of that and, hence, it was taken at a portfolio level. And on the Retail side, I already spoke about the kind of PCRs we are maintaining across the board as well as the macro prudential provision of Rs. 1,200 Cr. I think we are right now sufficiently and heavily provided for.

Sudipta Roy:

Yes. And Kunal, I'd like to add to that, for example, in slide -- and one of the reasons is from slide 15 to 17, we have taken extra care to sort of point out our credit metrics vis-a-vis industry. And this is given -- this has been given specifically to give comfort to our investor community saying that our portfolio metrics are very robust at this particular point in time. If you look at especially the -- our Rural Group Loans. And the fact is that this is like TransUnion CIBIL data. So, if you look at our Rural Group Loans and our Micro Finance, our sort of delinquency levels on an apples-to-apples basis is 1/3rd that of industry. If you look at our Two-Wheeler Finance, we are at about 80% of industry.

So, the fact is that we are already maintaining good portfolio metrics in terms of credit performance. And the entire focus of the organization is to improve on that. So, we have told ourselves one thing that we will grow. But we will grow only after we are absolutely comfortable that the credit metrics that will come out of that growth is of a far superior quality. We will not sacrifice our credit quality in chasing growth. So -- and the metrics that we have given out sort of should give comfort that our Retail portfolio metrics, credit metrics are quite in a good shape. And we will keep on our endeavor to maintain that.

Moderator:

Next question is from the line of Praful Kumar from Dymon Asia.

Praful Kumar:

Yes, congratulations on a great momentum that you have built. I wanted to spend just some time on two thoughts. One, in terms of technology, on the tech stack that you are building, the sustainability and what edge does it give to L&T Finance? Because everybody talks about digital. How are we different in terms of what we are building today in terms of ecosystem? And second question would be on your employee talent acquisition and retention because that has been one challenge that we have seen historically. If you can address these 2 questions, what changes have you brought in the last 3-4 quarters and how it makes you a different underwriting tech stack and it gives you a lever to grow sustainably higher than the system?

Sudipta Roy:

Yes, thank you for the question. I think it's a very relevant question. So, on the tech stack, as you see, if you look at, as I said in my call, 3 axes on which we are sort of building. First and foremost thing is that, obviously, building the front end in a way that the UI/UX, we invest on the UI/UX and then make sure that customers have a world-class UI/UX when they come in and the friction points or what I call the choke points are eliminated surgically. So, the entire team has -- what we have done is that over the last 6 to 9 months, we have looked at all our customer journeys and we have mapped our customer journeys. We have granularly mapped, what are the choke points, what are the points of friction where we tend to lose customers, and we are smoothening all that.

Our new Personal Loans journey has gone live and our new Home Loan journey will also go live in the next couple of weeks, especially, our Home Loan digital journey will go live in the next couple of weeks. In terms of -- and the focus is not only on Two-Wheeler, we already had an excellent journey. We are working on improving the journey.

So, as you see, all our lines of business, the focus is on making sure that the user experience for the customer who is coming digitally as well as the user experience for our field sales force, who is sort of bringing in that application digitally, both are improved. For example, you can see that we have launched our new in-house collections app, which is called the BRAKE app, which is completely built in-house, and which is of a new generation and gives our collections team a great amount of flexibility. So that is sort of talking about the acquisition engines.

In terms of sharpening credit underwriting, we have given the details on slide 14. But what we are trying to do is that we are trying to stitch together our next-generation integrated underwriting platform, which includes not only bureau inputs, but includes the account aggregator inputs, which is like maturing with every passing month. We ingest alternate data at scale. And by alternate data, I mean that various signals, which I call trust signals, which have been built by many payment companies who are seeing great volumes of payments data. And last but not the least, have micro geographic inputs wherein if a particular geography -- overlay geographical loss rates -- historical loss rates in a particular geographical area into the underwriting engine. So, what we have been trying to do is that while we stitch together this engine, the underpinning of this engine will be like machine learning-based score cards, which have been built basis past historical data. And frankly, the scorecards have been built and now being integrated into the system. And we are very pleased with the performance of the scorecards and the lift that it is giving basis when we back test that on existing data that is available.

So, we are hopeful that the beta version will come into production in sometime around the latter part of Q1FY25. And this engine will actually be an omni product engine, wherein it can be used for two-wheeler, it can be used for personal loans. It can be used for tractors. Though the underlying scoring models might be different. That means I might have a scorecard, which is different for Personal Loans or different for our Two-Wheelers or different for Tractors because these are like different products. But the fact is that all these scorecards will go into this one engine and depending upon the product there, appropriate scorecard will be picked up. And so, the data source, for example, when we pull it will be the same. But the scoring models might be different for each and every line of products. So, this is a slightly complicated build and a little bit of heavy lifting that our technology as well as our credit teams are doing, but we are very satisfied with the progress so far. So, does that answer your question? Was there a second part of the question?

Sachinn Joshi:

On the employee part.

Sudipta Roy:

Yes, on the employee part as well as -- so on the employee part, obviously, financial services have seen higher attrition in all organizations over the last couple of quarters. What we have done is that especially for some parts of our front line, we have done some salary corrections and made parity corrections over -- compared to some of our competitors, which has seen our attrition levels in some of our front lines come down as high as 30% in a period of 2 to 3 months.

So, in a way, we remain focused on doing that. Because also, there are various sales force welfare measures that we are keeping on doing through our HR team, which we have started doing it very, very granularly. Like, for example, in our Micro Loans business, we do something called a role appreciation program wherein when people join, we spend the first couple of days, just taking them through the ropes of what their business needs are and what the business requirements are, what they will be. And dos and don'ts and the best practices, which we have noticed is that helps us sort of bring down the initial sort of joining attrition that we see.

So overall, we are -- the efforts are on and the initial results that we have seen on some of these efforts is quite encouraging. We have also, for example, in Micro Loans business started canteen facilities for our Micro Loans employees, wherein the food is provided at the Micro Loans canteens -- Micro loans' branches or meeting centers, as we call it, to most of the employees who are like coming from outer areas and probably stay in bachelor accommodations. So small initiatives like this, but overall, when we add together those micro initiatives, they add up together into a whole and sort of bring down the overall attrition levels, of which the initial trends are very encouraging.

Moderator:

Next question is from the line of Viral Shah from IIFL Securities.

Viral Shah:

So basically, I had first question on your -- the profitability, essentially the NIMs going ahead. So, 2 things are playing out. So, one you mentioned that incrementally, the focus will be more on the secured products and also the prime customers within that. So one would be, say, the pressure on yields. And the second would be also on the cost of fund side. So right now, we have seen that since last few quarters, we had the benefit of running down the book and which essentially meant that we did not have to borrow heavily. Now incrementally that we are going to grow the book as well as also the benefit of reverse merger is also being now behind us, how will the cost of fund trajectory look like? And consequently, the NIM because we saw that the spreads actually compressed 10 basis points in this quarter.

Sudipta Roy:

Yes. So, I don't know, I didn't say that we'll be focusing on secured. Secured obviously is a focus for our business. But the fact is that if you see all our lines of business are doing well. And the fact is that high yield lines of our business like Micro Loans, etc., has given very good -- has shown a very good growth trajectory. We'll be also growing Personal Loans, which is of a good yield. So obviously, we would have to judiciously balance our secured origination vis-a-vis our unsecured origination, but we'll be mindful that we -- while during that process, we do not -- we keep a fine -- we keep a good balance and do not end up sort of disturbing the yield trajectory going forward.

So, we hope that we'll be able to keep our NIMs and fees between 11% to 11.25% sort of corridor in FY25. Obviously, the cost of funds trajectory is something that is dependent on the market condition. And given the sort of the initial expectations of easing of the fed rate was -- is sort of less of a possibility. Now a follow-up action by RBI also looks like a less of a possibility going forward. So, we are more or less sort of, given the certainty that sort of the cost of funds regime that we are in probably will trend towards a majority part of the year, which might see to a 35 to 40 basis points increase in our cost of funds during the course of the year.

But maybe, Sachinn, you would like to add to that?

Sachinn Joshi:

Yes. I think if you have noticed this financial year, we have kept it in the same corridor, about 34 basis points is the weighted average cost increase from 7.46 to 7.80. I think there is still -- some of the banks are yet to transfer the 250 bps repo increase, which was done by RBI because certain loans come up for renewals only after completion of 1 year. So those are the ones, which will impact. Secondly, even the capital adequacy requirements for banks have gone up for certain -- for the NBFC financing. This also may come up for -- the banks ultimately will have to pass it on. So, these are 2-3 things, apart from what Sudipta mentioned in terms of what may happen in the markets. RBI has been monitoring the liquidity pretty well.

Last -- if you look at just last fortnight, we have seen that the -- there was some liquidity, which got created and the short-term funds were available. Actually, the costs came down. So, we will have to be very opportunistic. Our commercial paper exposures are today just 5%. We can, as per the ALM go up to 15%. We have started seeing balance sheet growth from last quarter and we will have the opportunity of increasing the commercial paper exposure slowly and steadily, we will not be very aggressive on that because we also have the benefit of financing the tractor and micro loan books, which also qualify for PSL.

So, if you look at our overall borrowing, 20% of our borrowings are actually financed with the PSL loans provided by banks and these loans come in at a cost, which is lower by at least 100 to 125 basis points. With whatever is happening on the Fed side, there has been expectation of -- there was rather an expectation of 2 to 3 rate cuts, which is slowly and steadily dimming. But this has also led to the borrowing through ECB route coming out to be more cheaper than domestic borrowings. So, all these are opportunities, which we will take. We have already 2 sanctions from Asian Development Bank and JICA. Apart from that, there are a few other public sector banks with whom we have been in discussion.

So, ECB limit of 750 million is fully available to us. So, we would want to diversify and also take opportunity to restart our retail bond issuances, which we used to successfully do pre-Covid and smaller tickets about Rs. 250 Cr to Rs. 500 Cr every quarter on tap will ensure that we have monies, which stick to our balance sheet. So, this is broadly the strategy on the liability side.

Viral Shah:

So just to actually follow up on both those points. So, on first of all, cost of funds. I think so basically, this means that the incremental cost of funds for you while the back book is at 7.82%, it will be closer to around 8.15%-8.2% going at -- for the full year?

Sachinn Joshi:

Yes, yes. So that is based on the current situation. Naturally, if something dramatic happens, we will have to factor in. But as we speak, this is what our expectation is.

Viral Shah:

Fair enough. And secondly, Sudipta, on your point on the yield. So, in terms of the balancing of the secured-unsecured, I get it. But incrementally, you are saying that we are going to focus more: a) more on mortgages; b) within PL also the NTB customers, more on the salaried side rather than the self-employed side, which is there already on the book. So how will we be able to expand the yields to offset this increase in cost of funds?

Sudipta Roy:

See, the fact is that we have to look at the risk-adjusted yields at the end of the day because finally, it's the risk-adjusted yield that flows into the P&L. So, it's not that we are saying that we will be focusing only on mortgages. Mortgage is one of our focused products, but the other products will also have equivalent amount of focus. And what we are saying is that, for example, in Two-Wheelers, you have seen that we have increased our prime share, but the fact is that we have not dropped our NTC share. Our NTC share still remains at about 40% of our originations, which give us the overall yield. So, what we are trying to do is that making the portfolio balance in such a way that the portfolio risk metrics become more predictable, and there is a paring of collections cost as well as the paring of entire credit cost as well.

So though especially on the prime segment, the yield might drop by a couple of basis points when we actually administer in the field. But the attendant efficiencies that you can get in collections cost or the attendant efficiencies that you get in terms of the actual credit cost because -- which obviously brings -- the sort of the risk-adjusted yield overall at an even kill or probably improve or ends up improving the risk adjusted yields and makes the portfolio far, far more stable.

So, we are quite confident that whatever the current sort of NIMs + Fee trajectory that we have guided for, which is between 11% to 11.25%, we will be able to reasonably track well within that, even though we might sort of marginally sort of tweak the composition through the segment acquisition as part of our strategy.

Sachinn Joshi:

Yes, just to add Viral, right now, what you see NIM+Fee income, there is a fee component, which also gets factored in. So as the disbursements grow, your fee, the normal processing fee as well as a fee from the cross-sell also keeps increasing. And this, FY24 has been a year where you have seen the Wholesale book slowly and steadily coming down every quarter. So next year, we -- that factor also will prevail that, yes, there will be some pressure when we move more towards prime. But it will be full Retail portfolio that will be giving me those yields. So, some of it will get compensated through the Wholesale book coming down to levels of Rs. 4,400 Cr as we speak. And the Rs. 80,000 Cr Retail balance sheet will actually give me much better yields.

Sudipta Roy:

One additional point of information I'd like to give is that as an organization, we have received an insurance corporate agency license. So previously, we could do insurance only at the point of origination. Now we'll be able to do insurance through the life cycle and we are setting up an insurance team as well, so we are hopeful that, that also will give us a little more inflow of fees as well.

Viral Shah:

Right. And just one last follow-up on that point only, Sudipta. So, on the MFI piece, we are seeing that all the MFIs are talking of taking a rate cut. Do we also anticipate that because this is a clear, I would say, informal mandate from RBI.

Sudipta Roy:

I don't know about any informal mandates, so I will probably not be able to comment on that on the call. But as of now, our rates, we have been maintaining the same rate for almost close to 5- 6 years now.

Sachinn Joshi:

More than that.

Sudipta Roy:

Actually, more than that and we plan to sort of follow the same trajectory as forward.

Viral Shah:

Okay. Okay. And what would be the interest rates in the MFI segment right now for us?

Sachinn Joshi:

24%

Sudipta Roy:

24% for us.

Moderator:

The next question is from the line of Abhijit Tibrewal from Motilal Oswal.

Abhijit Tibrewal:

Just 2 clarifications on things that you've already explained in this call. One is, I mean, in terms of SR provisions that we've taken that you have already explained in far greater detail, but just wanted to know that, I mean, from the regulator, there is no nudge at this point in time to increase the provision cover on the SRs on the book, right?

Sachinn Joshi:

See, the NAVs, which are given by the rating agencies, okay, these are given from the ARCs. It comes through the ARCs. So, the valuations are always done basis the NAVs, which are being given. And regulators will be more than happy when we have incremental provisions on the balance sheet. In our case, it was more to do with the fact that the loan assets having come down to such a level, we were very successful in bringing it down within a very limited time frame.

So, we also thought it was advisable now to start focusing on the SRs and relook at how do we really focus and start bringing resolution around that. RBI, actually, the inspections will keep happening on a yearly basis. So, there are always discussions around having macro prudential provisions, having overlays. So that's part of the usual requirement.

Abhijit Tibrewal:

Sir, my last question is, again, on -- I mean, there are 2 questions here. One is, I mean, you've talked about this new underwriting engine that you are building, we are comfortably growing in Retail at about 30%. I mean maybe 6 months-12 months out when you kind of roll out this underwriting engine, would you look to accelerate the Retail growth, is something I wanted to understand. And sir, lastly, on the dividend, I recall sometime in the first quarter earnings call of FY24, we had shared that until the time we find a better opportunity to deploy the net worth, we'll be kind of evaluating dividend payouts of up to 50%, which is permissible. So has there been some rethink on that?

Sudipta Roy:

First, I will take the first question, and then I'll ask Sachinn to take the second question. So, in terms of, we are already growing at a fast clip. 30% is quite a good pace of growth. So, our objective on building the new credit engine is to make sure that we are able to sort of pare out even those sort of questionable credit cases that may be a little non -- less-sharpened engine is not able to do.

So, because we are growing at such a fast clip at a 30% level, and as per Lakshya strategy, we have guided on a 25% growth rate, it becomes imperative for us to make sure that our credit engines are far, far more stronger than we had before. So, I don't think we are building the credit engine to make us grow faster. Probably we are already growing at quite a fast clip.

The reason we are building the credit engine is to make sure that while we are growing at that pace, we obviously do not have any unseen surprises like hitting us maybe a couple of quarters down the line just to make sure that everything is robust, and everything is absolutely underwritten in a pristine fashion. Such that there are no leakage situations later on. So that is our objective. Obviously, as part of this new growth engine, what happens is that what we call in our parlance, swap-in swap-out set, that means it helps you to swap in a set of customers you might have declined and even helps you to swap out a set of customers which you might have approved.

So, the efficiency of increasing the swap-in swap-out is also an objective of the new credit engine. And if you're able to do that, it actually improves the credit metrics by an order of magnitude. So that is the focus. So, the focus is that while we are growing at that pace, just to make sure that everything is far more tighter and far more stronger.

Sachinn Joshi:

Yes. With regard to dividend, as you are aware, last year, we had declared and paid 20% dividend. And this year, Board has already recommended 25% dividend, which will have to be approved at the AGM. And if approved, then that will be paid. Our CRAR is pretty robust, but at the same time, against the Lakshya 2026 plans of growing at 25% CAGR, you would have seen that over the last 2 years, we have been actually growing at 30% plus. So, retaining the capital on the balance sheet really is helpful as well as RBI has come up with incremental capital requirements and all that. So frankly, I think a 20%-25% dividend declaration is pretty reasonable is what the Board felt. And hence, they have recommended 25% for this financial year

Moderator:

The next question is from the line of Shweta Daptardar from Elara Capital.

Shweta Daptardar:

Congratulations on a good quarter. Sir, you mentioned in your opening commentary about rural demand weakness spilling over and persisting, so then how do you perceive the Micro Finance business as on today? If you can throw contours in terms of ticket size, vintage of the borrower, center meetings versus industry level, that's one. And just a follow-up question on SRs. So, while you mentioned Rs. 2,600-odd Cr of provisions on the existing book -- sorry, not on the SR, on the existing -- on-balance sheet infra book. So, is this because of the haircut discount that we are taking or you're perceiving any underlying risk even on the on-book infra portfolio? Thank you.

Sudipta Roy:

So, I'll take the first question, and I will ask Sachinn to take the second question. So, lot of details have been given actually, in slide 15 of our investor presentation where we have given borrower vintage and our ticket size as per borrower vintage. So, with regards to unevenness in rural demand, that was -- that comment was far more to -- on the -- actually on the Farm segment, which is basically tractors. Because of the unevenness in rainfall and because of the lowered water tables all across the country, tractor demand has been sluggish, OEM shipments have been sluggish and the entire industry has degrown. And MFI industry currently, it's operating on a 31%-30% growth rate. And the fact is that even if it tempers down slightly by a couple of percentage points, even -- it's a good growth rate. In fact, for us, this year has been good primarily because as I said, one way you can tackle uneven consumer demand also is to increase your surface area of distribution. And that is what we have been trying to do as well as increase the sort of the depth of your distribution wherein we have tried to see that many of our credit seasoned customers. We have to try to see whether we can cross-sell at a better efficiency, so we've been able to do both that. We've been able to do cross-sell at a better efficiency as well as we have been able to increase the surface area of distribution, which has actually helped us to sort of hold our distribution in the MFI segment. As of now, as I said in my call, Q1FY25 also, which is basically the month of April also looks to have started reasonably well. And we are hopeful that as rains come, both the Farm business, which is basically primarily the tractor business, the trajectory of that business will improve. And we are also very hopeful that the rural economy will work up from -- at current levels and lead to sort of good robust demand generation throughout the year. Obviously, the wildcard here is the monsoons. And given the current focus right now, monsoons are expected to be normal to near normal, though with a little bit of a delayed onset. So, we have to keep our fingers crossed -- Sachinn, would you like to take this?

Sachinn Joshi:

Yes, so the provisions that were taken earlier, the Rs. 2,687 Cr was on the Rs. 38,000 Cr book. And at that point of time, we had communicated that this was more of an illiquidity discount because the intent was to accelerate the sell down. And if you have to accelerate sell-down of such a large book, then naturally, the expectation of the buyers would be that they would get a discount to acquire asset or a portfolio, which is more long term in nature -- most of these Infra and Real Estate assets were in the range of anywhere between 5 to 10 years. And if we have to sell these within a limited time frame, to take care of these expectations of these investors or the buyers, we thought it was prudent to get a valuation done wherein the asset-by-asset -- individual asset, the segment to which that asset belong, the promoter group to which that at asset belong, all these factors were taken into account before the valuer arrived at a value, at which it could be sold.

Now naturally that was only an estimate, which was done. And as we started selling them, we realized that there were some assets, which got sold at below the NAV, some assets got sold above the NAV and some assets at par. Once this exercise was undertaken, on the same lines the SR investment that we have today are again in the same space. There are various projects, which are in different stages of resolution. Some will be in NCLT, some we will be trying to resolve with the promoters. So, because of this, as Sudipta mentioned, the issue came up of sequencing risk. So which asset will get resolved earlier and which will get resolved later is very difficult to really decide. And hence, we thought it would be good to get an assessment done basis which if there is any risk of having an impact coming to P&L, we should do this stress testing and sort of create a provision at a portfolio level, which helps us in then focusing on the Retail side because this is a quarter-on-quarter feature. The valuations will be done as required by the regulator. So, a sort of stress testing resulted in this requirement, which has been factored in the Rs. 721 Cr provision.

Sudipta Roy:

And I'd like to add to what Sachinn said, the fact is that because of the increased buoyancy in the real estate sector, both in commercial and residential real estate, land values have gone up across the countries. A project, which was started maybe 5 years back, the residential real estate rates have gone up in that particular area. And the fact is that now we see that several resolution pathways have suddenly emerged. And we can see that pretty visible to us and our teams are working on those resolution pathways. So, we just wanted to protect our sort of quarter-on-quarter performance from any variations rising out of the sequence risk. And that is why as a prudential measure, we have taken this Rs. 721 Cr, just to give a peace of mind to sort of against any of the sequencing risk rise because what we want to do as an organization is that we want to focus on growing the Retail.

As you know that our Retail engines are firing very well. You have seen that our Q4 disbursements have been better than our Q3 disbursements, which is the festive quarter, which is also a testament for the fact that the Retail engines have been tuned, fine-tuned, the Retail engines have come together as a cohesive whole. We obviously, as a management team, obviously thought that it is important that we should not get distracted from growth of our Retail engines going forward. And that is why we sort of have created this floating provision pool for the SR assets. As an organization, we believe that at the end of the day, as and when these SR pools go towards resolution, LTF, will actually probably end up gaining a significant surplus over whatever the carrying value or the fair value of those SR assets are. But this resolution process will take anywhere between 4 to 5 years because they are real estate assets and they have an execution time frame. In the interim, this Rs. 721 Cr is just provided to take care of any of the sequencing risk and help us sort of focus on Retailising L&T Finance, where we see that -- we are already at 94% Retail. Obviously, we will be moving towards 100% retail. And the transformation agenda should not be distracted at any cost. So that is our core agenda.

Moderator:

Next question is from the line of Nischint Chawathe from Kotak Institutional Equities.

Nischint Chawathe:

Just one clarification. You have provisions on SR of around Rs. 720-odd Cr, you've Retail ECL on balance sheet of around Rs. 3,500 Cr. And you have provisions in the Wholesale book of around Rs. 2,100 Cr. So -- all of this adds up to around Rs. 6,300 Cr of provisions on the balance sheet. Is my math right?

Sachinn Joshi:

You're talking of financials as of what date, Nischint?

Nischint Chawathe:

This current date. So, you've got ECL and you have Wholesale loans and you have macro prudential.

Sachinn Joshi:

So no, no, like I mentioned, the overall provisions, which have been taken we will actually -- the financials will get released shortly. But just to talk about the numbers, I'll just repeat the overall provisions that we have. On the SRs that we have taken over a period of time is Rs. 8,300 Cr. And today, the value of these SRs on the balance sheet is Rs. 6,770 Cr, which is after taking -- incorporating the Rs. 721 Cr.

Nischint Chawathe:

No, no, I understood. But the balance amount other than Rs. 720 Cr is a markdown, right? So Rs. 720 Cr is.

Sachinn Joshi:

Yes, that's right.

Nischint Chawathe:

I am just saying that if I look at the pure provision at Rs. 720 Cr, the Retail book is Rs. 3,500 Cr and the Wholesale book is Rs. 2,100 Cr.

Sachinn Joshi:

The Retail book is --

Nischint Chawathe:

That overall ECL on balance sheet in the Retail book that you put out.

Sachinn Joshi:

Okay. Rs. 3,531 Cr is what you're talking about.

Sudipta Roy:

On the book -- this is on the book.

Nischint Chawathe:

Yes. And Wholesale is Rs. 2,100 Cr, which you mentioned anyway in the call right now.

Sachinn Joshi:

So see, Rs. 2,687 Cr was taken and that was factored in the fair valuation. We can come offline and, in fact, share the numbers with you, Nischint. Because there is the whole Retail portfolio and there is Wholesale loan assets, plus there is a Wholesale investment.

Nischint Chawathe:

Got it. Just one last one. On the Retail -- sorry, on the consumer side, Personal Loan side, if you have seen some sort of sluggishness over the last 2 quarters, that largely reflects slowdown in kind of digital origination or have you slowed down the -- on the cross-sell.

Sudipta Roy:

No, no. See, our Personal Loan's origination is completely digital. We -- in fact, we have just started a little bit of DSA this quarter. So, till date, it was completely digital, what we did was that we -- because obviously, there was an entire overhang on the entire unsecured, especially on Personal Loans. What we did was that we took up our risk guardrails and also we were implementing some of our digital pathway changes. So, both things actually tempered down our Personal Loans growth. But as you've seen -- between Q3FY24 and Q4FY24, there has been a disbursement growth of approximately about Rs. 120 Cr -- Rs. 100 Cr to Rs. 120 Cr odd.

So, you will see that this portfolio will be growing at a measured clip, but probably the percentage growth rates will be measured. It will -- we will not try to put any breakneck growth in Personal Loans. It will be measured and we will grow it measuredly. And you will see guidance from us and performance commentary from us in the next couple of quarters on this.

Nischint Chawathe:

Sure. And when you say measured, it's faster than the overall company growth or slower?

Sudipta Roy:

This will probably be -- see, it's on a very small base. So, at times, what happens is if you grow on a small base, percentage growth rates might come out lower. But still, if you look at the percentage cross-sell of PL to our existing customers, this is currently at 60%. So, in terms of the net growth rate, it might be lesser than the net growth rate of many other lines of business. But because the base is very small, sometimes percentages can come out as high. But the fact is that whatever we grow, we'll be growing it to the salaried segment. We'll be growing it on cross-sell, and we'll be growing it to absolutely safe segments.

Moderator:

Ladies and gentlemen, we will take that as the last question. I'll now hand the conference over to Mr. Sudipta Roy for closing comments.

Sudipta Roy:

Thank you. I would like to sort of thank the analyst and the investor community for having joined us on this call. As I said in my opening commentary, we, as an organization and the management team, we are quite satisfied at our performance in Q4FY24. We believe that we have laid the foundation stones over the last year for a very sustained Retailisation journey. As you can see, we are at Retailisation of about 94%.

We remain ahead of our Lakshya plan by almost 2 years. Now we are investing, as I articulated the 5-pillar strategy, we are granularly executing the 5-pillar strategy while keeping a hawk's eye on risk. This quarter, obviously, also, we wanted to make sure that our investors sort of -- and we listen to our investors and make sure that we allay sort of the overhang that we had on the trajectory of our SR book. So, we have created a Rs. 721 Cr of floating provision to sort of protect us against and protect our quarter-to-quarter performance against variation that might come because of a sequence risk while we resolve those SRs, which I maintain that at the end of the entire SR trajectory, L&T Finance will probably make a surplus on that.

And we remain committed on executing a very strong FY25. Q1FY25 has started on a strong note. And we -- I'm just hopeful that given the prediction of a good monsoon, FY25 will also turn out to be a very strong year for L&T Finance.

I thank you all again for joining us on the call. And as we go through the year, we'll be very happy to sort of catch up with the overall investor/analyst community on a one-on-one whenever we have an opportunity and explain probably on a face-to-face basis some parts of our strategy as well. Thank you so much, and have a good day.

Moderator:

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

*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