October 27, 2025

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

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

Symbol: LTF

Security Code No.: 533519

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

Sub: Transcript of Investor(s) / Analyst(s) meet – Q2FY2025-26 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 Q2FY2025-26 financial performance and strategy update held on October 16, 2025.

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

We request you to take the aforesaid on records.

Thanking you,

Yours faithfully,

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

Apurva Neeraj Rathod
Digitally signed by Apurva Neeraj Rathod
Date: 2025.10.27 16:23:30 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance Ltd.

Q2 FY26 Earnings Call Transcript

October 16, 2025

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 – Investor Relations)

Moderator:

Ladies and gentlemen, good day, and welcome to L&T Finance Limited Q2FY26 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 the 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Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the conference call.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 While all efforts would be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call.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, everyone. I welcome you all to the Investor call for Q2FY26. Joining me today on the call are – our CFO, Mr. Sachinn Joshi, our COO, Mr. Raju Dodti and other members of the senior management team of L&T Finance. On behalf of the entire L&T Finance team, I would like to extend our festive wishes to you and your families and the broader investor community.

Similar to our previous calls, today's call is divided into two sections, taken up sequentially by myself followed by our CFO – Mr. Sachinn Joshi, who will be talking about the overall business metrics & financial performance.

During my interaction with you over the course of the last 2 years, I have spoken about the various investments we were making in strengthening the company and upgrading our capabilities across domains, including the various transformative initiatives undertaken by us. In this call, I will provide further details about the results we are seeing from those initiatives and their long-term impact on the business. As far as our core business franchise is concerned, it stands in a good shape, which is evidenced by the numbers posted by us in Q2FY26 and I am hopeful that in the remainder of FY26 this performance trajectory will continue.

Post our commentary, we will be happy to take questions on the call.

Macro-economic outlook

Before we delve into the highlights of the quarter, I would like to give you some flavour of the current macroeconomic scenario and sectoral outlook.

India's recent credit rating upgrades reflect growing global confidence in the country's economic resilience and growth prospects, amidst heightened trade uncertainties. Growth remained resilient, on the back of private consumption aided by rural demand and fixed investment supported by buoyant government capex. Headline inflation has also seen significant moderation during H1FY26, mainly due to a sharp correction in food prices and is projected to remain close to the lower end on RBI's target band in 2025-26.

Agriculture sector prospects remain favourable despite flooding caused by heavy rainfall in several states, including grain bowl states like Punjab, where crops have been destroyed and rainfall deficiency in east and northeast India impacting crops. This favourable prospect is supported by above normal monsoons in most regions, adequate reservoir levels, and supportive policy interventions. Rainfall over the country as a whole during the 2025 South West monsoon season was above average at 108% of its long period average, albeit unevenly distributed. The area sown under key kharif crops like rice, pulses, sugarcane, coarse cereals, etc. are 1-6% higher than last year. Reservoir levels stand at 90%, exceeding the levels recorded a year ago as well as the decadal average. Intense rains towards the end of season in pockets of Karnataka, Telangana, Maharashtra, Gujarat, Rajasthan and Punjab have impacted standing crops in some parts. However, the early trend of mandi arrivals indicates a delayed but healthy crop output overall. Prompt relief measures for the farmers and higher MSP prices should provide further support.

As far as Rural demand is concerned, it continues to remain buoyant with upbeat tractor and motorcycle sales and strong growth in fast-moving consumer goods sales in rural areas. The GST 2.0 reforms are expected to further boost private consumption and domestic demand. Revival in the discretionary spending of households in both rural and urban areas is already reflecting in high festive sale volumes and consumer sentiments and should support credit expansion in the quarters ahead.

With liquidity conditions improving during the first half of FY26, domestic financial markets remained resilient and relatively stable. Monetary policy, along with liquidity easing measures, have contributed to favourable financial conditions by influencing both money and bond markets. Concomitantly, credit demand has witnessed an uptick in the recent months as well.

Going ahead, lower inflation, rising capacity utilisation, and congenial financial conditions continue to support the growth outlook. The government's continued thrust on capital expenditure, GST 2.0 reforms and improving credit conditions should boost aggregate demand conditions in the near-term and help to sustain strong momentum in the NBFC sector with healthy credit demand.

Q2FY26 Highlights:

To start off with this quarter's highlights, I would like to share that the microfinance sector has shown green shoots of recovery this quarter and we have seen sustained resilience and uptick in both disbursement volumes and collection efficiencies in our microfinance portfolio. The performance of the LTF portfolio is a result of the strong credit underwriting and stringent association norms implemented over the years and further sharpened over the course of the last few quarters. I am happy to share that directionally, the overall credit cost for the organisation has started its downward trajectory owing to the various process interventions and implementation of Project Cyclops in fulcrum businesses like Two-Wheeler and Farm loans and is expected to tend towards normalisation in the second half of FY26. I will speak about them in greater detail during the course of the call.

I am pleased to inform you that we have achieved a quarterly Consolidated PAT of Rs 735 Cr, registering a growth of 5% QoQ and 6% YoY, with the retail book crossing the ₹ 1 lakh Cr milestone, now standing at Rs. 1,04,607 Cr, reflecting a growth of 18% YoY. The Consol booksize registered an increase of 15% YoY, reaching Rs. 1,07,096 Cr, while the RoA came in at 2.41% in Q2FY26.

Given the fact that quarter 2 for BFSI is traditionally a weak quarter, we are pleased to inform that we recorded our highest ever quarterly disbursement of Rs. 18,896 Cr, a growth of 25% YoY and 8% QoQ, driven by a strong performance across all our lines of business. I would like to point out that this growth in Q2FY26 is driven by organic business expansion and we expect the additional boost from GST 2.0 especially in the Two-Wheeler and Farm segments to be registered in Q3FY26. Our Rural Business Finance disbursements achieved normalisation during the quarter with a disbursement of Rs 6,316 Cr, up 12% QoQ and 16% YoY, based on continued improvement in collection efficiencies, giving us the confidence to expand disbursements and markets, while continuing to follow the stringent sourcing and portfolio norms. Our Two-Wheeler business saw a QoQ disbursement growth of 18% and Personal loans disbursements expanded by 50% QoQ driven by increased funnel off-take from our big tech partnerships (slide 53 of the Investor Presentation).

Next, I would like to provide an update on the impact of the Karnataka ordinance. Last quarter, I had mentioned that we had started seeing uptick in collection efficiencies and a positive momentum in growth from Karnataka across monthly and quarterly tenors. The quarter saw a 70bps improvement in monthly collection efficiency which increased from 98.48% in June'25 to 99.18% in September'25. We expect the collection efficiency will continue to trend upwards in Karnataka in Q3FY26. The pan India '0 DPD' collection efficiency improved by 15bps to 99.50% from 99.35% during the previous quarter.

I would now like to give you an update on the performance of the newly acquired Gold loans business. I am happy to share that the Gold loans segment acquired significant momentum during the quarter outperforming our expectations with a quarterly disbursement of Rs. 983 Cr and the highest ever monthly disbursements of Rs. 423 Cr in the month of September. In the coming quarters we are working on expanding our geo-presence across the country through branch expansion with ~200 new branches focused on areas with high cross-sell potential. In this regard, our model of integration of gold finance branches into multi-product 'Sampoorna branches' augurs well with our aspiration to become a leading pan-India gold finance player. By the end of FY26, we plan on establishing a distribution strength of 330+ gold loan branches.

Coming to our large partnerships initiative, continuing with the momentum established with Amazon Pay, Cred and PhonePe, the overall Personal Loans disbursements for the quarter from big tech partnerships, including that from our newest partner Google Pay reached Rs. 1,138 Cr, pushing our overall Personal Loans disbursements for Q2 up 50% QoQ and 114% YoY at Rs. 2,918 Cr. While the uptick is steep, I would like to highlight that we have been keeping a strong focus on credit and risk guardrails, while we continue to extensively leverage partner trust signals. I am confident that we will continue to scale up this business in a risk calibrated manner and expand our origination momentum with existing partners while fostering partnership with few more big tech players.

You would recall that I had made the announcement in Q1FY25 of the deployment of beta version of Project Cyclops, our AI-powered digital underwriting engine and since then Project Cyclops now powers 100% of underwriting in Two-Wheeler, Farm Equipment and SME businesses. It will be implemented in Personal Loans in Q3FY26 and we are readying the decks for implementation in Rural Business Finance and Mortgage business in FY27. The leading credit performance indicators from the Project Cyclops underwritten portfolios in the above lines of businesses remain extremely encouraging and our technology teams have been hard at work to improve the versions of Project Cyclops with every passing quarter. It is to be noted that we are currently in the version 3.0 of the software whose processing capacity has been improved from 100 TPS (Transactions Per Second) at launch to 1,400 TPS at present.

We continue to see encouraging trends with sharply lower portfolio bounce outcomes and NNS (Net Non-starters) trends in the Project Cyclops underwritten Two-Wheeler Finance portfolio in comparison with the non-Project Cyclops portfolio, while there has been a sharp reduction in Net Non-starters (NNS) for tractor customers through identified dealership rationalization in the Farmer Finance portfolio. The total number of cases disbursed in the Two-Wheeler Finance vertical through the Project Cyclops engine crossed 7,50,000 during the quarter while more than 21,000 cases were disbursed in the Farm Equipment Finance segment through Project Cyclops. As a consequence, the NNS for the Two-Wheeler Finance portfolio reduced to 0.47% for September'25 from 2.36% in December, 2024, which has also contributed to a reduction in the overall gross credit cost for LTF during the quarter. We will be sharing deeper insights into portfolio performance of Project Cyclops portfolios in our Investor Digital Day scheduled on November 6, 2025. We are confident that as disbursements through this engine scale up across businesses, our portfolio quality will get significantly enhanced with lower bounce rates and early non-starters, thereby leading to a reduction in the overall credit cost trajectory for the organisation.

Our next transformative initiative, 'Project Nostradamus', a state of the art, first in industry AI driven automated real time portfolio management engine leveraging traditional as well as alternate data went live in 'beta mode' for Two-Wheeler Finance in August'25, with data dashboards for early warning and proactive portfolio management to monitor performance down to an individual micro-market cluster. We will also be giving previews of Project Nostradamus during our Investor Digital Day on November 6th. I am confident that we will be able to make Project Nostradamus live for all lines of business by the end of the year.

I am happy to share that our investments in cutting edge technology and strengthened credit frameworks and underwriting have started showing early signs of impact in the gross credit cost trajectory for the organisation. We have been progressing towards a fundamentally stronger credit cost paradigm, with credit costs (before utilisation of macro prudential provisions) reducing from 3.80% to 2.98% between Q4FY25 and Q2FY26 (slide no. 8 in the Investor Presentation). Consequently, with a projection of further improvement in credit profile after full scale up of Project Cyclops and Project Nostradamus, we expect overall credit costs to trend lower in the medium term.

In my last call I had mentioned L&T Finance being assigned its first ever international rating, I am happy to share that we received a rating upgrade from S&P on August 14, 2025, with the long-term rating moving from "BBB-/Positive" to "BBB/Stable" and the short-term rating moving from "A-3" to "A-2", a result of the upgrade in India's sovereign rating. These ratings are investment grade and are now on par with India's Sovereign Credit Rating. This favourable assessment significantly enhances our ability to access global capital markets, thereby enabling further diversification of the liability franchise and the deepening of our lender base.

Update on Lakshya 2026 Goals

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

- The first milestone was to achieve Retailisation of >95% by FY26. We achieved a retailisation of 98% in the last quarter and it remained at the same level during Q2FY26, with the retail booksize crossing the Rs.1 lakh Cr mark.
- The second milestone, on the loan book growth front, we had set ourselves a retail book growth target of 25% against which we have achieved a CAGR growth of 27% between Q4FY22 to Q2FY26.
- On the third milestone which is on the Asset Quality front, we maintained the Retail GS3 & NS3 levels closer to the threshold levels (GS3<3% and NS3<1%) despite the macro challenges and segment specific challenges in the microfinance segment, our Consol. GS3 and NS3 stood at 3.29% and 1.00% respectively.
- On the fourth and last milestone of RoA, we achieved RoA of 2.41% in Q2FY26. We remain committed to continuous improvement in the RoA trajectory as the segment headwinds in the microfinance sector dissipate and the downstream benefits of better credit process control and underwriting through Project Cyclops start materialising.

I am also confident that with the improving collection efficiencies in the microfinance portfolio (including recovery in Karnataka), we will not require utilisation of any further amount from the macro prudential provisions from Q3FY26 onwards. During this quarter, the Board approved utilisation of Rs. 150 Cr of macro prudential provisions. After the utilisation of the said provisions to the extent of Rs. 150 Cr, the residual macro prudential provision at the end of Q2FY26 stands at Rs. 125 Cr.

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 in October 2023 and continue to be in implementation mode against the same.

1. **Customer Acquisition -** Our focus remains on broadening our customer funnel, both by deepening our reach in existing segments and broadening our geographical and digital footprint through partnerships. In the Rural Business Finance vertical, apart from focusing on retaining our credit-tested customers we continue to acquire new non-leveraged MFI customers through geo-diversification, leading to an uptick in the activation of new villages villages during the quarter. We are also expanding our geographical footprint in the states of U.P., Maharashtra and Andhra Pradesh. With overall improvement in the credit risk environment in the industry, our customer acquisition velocity moved northwards across all lines of business in Q2FY26 and we expect this positive trajectory to continue over the rest of the year. Further details around customer acquisition and repeat share are available on slides 14 & 15 of the Investor Presentation.
2. **Sharpening Credit Underwriting -** The continuous expansion, improvement and validation of Project Cyclops scorecards remain paramount for us. Project Cyclops is fully implemented and operational for Two-Wheeler, Farm Equipment, and SME businesses. The implementation for Personal Loans is scheduled for Q3FY26, while rollouts for both Home Loans & LAP and Rural Group Loans & MFI are planned for the fiscal year FY27. Our model risk management and machine learning operations teams are now fully functional giving us a strong structural framework to implement and monitor an increased density of algorithms and scorecards across various lines of business.
3. **Futuristic Digital Architecture -** We continue to work on upgrading our technical capabilities and our focus on continuously strengthening our IT framework remains unabated. I have already spoken about Project Cyclops and Project Nostradamus. I would like to make a special mention of our PLANET App, which has emerged as a powerful digital channel for our customers while serving as an important servicing tool. Our PLANET app which crossed over 2 Cr total downloads till date, received the award for “Best Digital Experience in Finance” at the Global Fintech Fest, 2025. I am confident that through this app, we will constantly harness cutting-edge technology to simultaneously enhance customer experience as well as improving our operational metrics. Please refer to slide no.60 & 61 in the Investor Presentation for operating metrics on the app.
4. **Brand Visibility -** We continue to capitalize on our integrated marketing campaigns, leveraging our brand ambassador, Jasprit Bumrah. During the quarter, we also ran campaigns for our Two-Wheeler and Farmer Finance businesses, while participating as an Associate Sponsor in the Asia Cup '25.

   I am delighted to announce that the second edition of our flagship BFSI-AI event ‘RAISE’ with the theme ‘Accelerating financial services with AI’, which is scheduled to take place on 7th November, 2025 at the Jio World Centre, in Mumbai will be bigger and grander, with a very interesting line up of international and national speakers and technologists. We urge you to visit the event website ‘www.ltfraise.com’ and register for the same.
5. **Capability Building -** On capability front, we are committed to fostering an environment where every employee feels valued, empowered and inspired, making us truly an employer of choice in the financial services sector. On this front, we continued to strengthen our organizational capabilities through robust employee recognition programs. These include the Champions League (recognizing over 200 top performing employees across the country) and the Zonal Star Awards (honouring over 1,100 top performing employees across key regions), ensuring continued motivation and development of our employees.

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

Financial updates

Sachinn Joshi:

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

Quarterly Performance:

- Consol NIMs + Fees for Q2FY26 remained stable at 10.22% on QoQ basis and down by 64bps YoY
- Consol PAT for the quarter at Rs. 735 Cr up 6% YoY and 5% QoQ
- Quarterly retail disbursements stood at Rs. 18,883 Cr, up by 25% YoY and 8% QoQ
- Retail book stands at Rs. 1,04,607 Cr (up 18% YoY and 5% QoQ). Our Consol book stands at Rs. 1,07,096 Cr, up by 15% YoY and 5% QoQ
- Consol RoA stands at 2.41%, down by 19bps and up by 4bps QoQ
- Consol RoE at 11.33%, down by 31bps YoY and up by 47bps QoQ

Retail Businesses:

Rural Business Finance
The business registered quarterly disbursements of Rs. 6,316 Cr, delivering a strong momentum with a growth of 16% YoY and 12% QoQ. The book size reached Rs. 27,460 Cr, up by 3% YoY and 3% QoQ respectively, in Q2FY26.

Farmer Finance
In the Farmer Finance vertical, quarterly disbursements stood at Rs. 1,654 Cr in Q2FY26 (down by 7% YoY and 25% QoQ). Postponement of purchases owing to GST rate rationalisation anticipation led to a lower offtake in the month of September. The book size reached Rs. 15,943 Cr, reflecting a growth rate of 10% YoY and 1% QoQ.

Urban Finance
The segment comprises Two-Wheeler Finance, Personal Loans, and Home Loans & LAP.

- **Two Wheeler Finance:** The Two-Wheeler business registered quarterly disbursements of Rs. 2,512 Cr in the quarter, up by 5% YoY and 18% QoQ. The book size increased to Rs. 13,013 Cr, up 3% YoY and 6% QoQ. Notably, 88%+ of Two-Wheeler Finance disbursements in Sept'25 was from the Prime segment as against 53% for the month of March'24. This reflects our focus on quality growth and risk-adjusted returns.

- **Personal Loans:** In the Personal Loans business, we achieved a quarterly disbursement of Rs. 2,918 Cr translating into a growth of 114% YoY and 50% QoQ with the book size reaching Rs. 10,878 Cr, an increase of 52% YoY and 16% QoQ, attributed to the successful scale-up of the big tech partnerships.

- **Home Loans & LAP:** Moving on to Housing, we achieved quarterly disbursements of Rs. 2,713 Cr, up by 7% YoY and a degrowth of 2% QoQ, with the book size at Rs. 27,407 Cr, an increase of 26% YoY and 4% QoQ. Growth in the segment was supported by newer partnerships and a strong network of distribution channels.

- **SME Finance:** In the SME business, quarterly disbursements stood at Rs. 1,468 Cr, up by 18% YoY and 15% QoQ. The book stood at Rs 7,465 Cr (up 44% YoY and 7% QoQ). The focus continues to be on building diversifying sourcing channels and expanding sourcing funnels through new partnerships to boost disbursements.

- **Gold Finance**

  In the Gold loan business, quarterly disbursement stood at Rs. 983 Cr and the closing book stood at Rs 1,475 Cr at the end of Q2FY26.

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

Sudipta Roy:

Thank you Sachinn. In closing, I would like to state that our teams remain fully focused on capitalising on the strong base we have built over the last few quarters and increase the acquisition velocity in the coming quarters. The impact of many of our credit and technology initiatives will start becoming more visible in our financials in Q4FY26 and the full scale will playout in the next financial year. Our investments towards best-in-class technology that can act as a force multiplier for our businesses will continue unabated as we continue to work towards achieving our long-term business goals which will be outlined in our Lakshya 2031 plan in April 2026.

I thank you all for joining us today. I once again now wish you all a very happy Diwali. The floor is now open to questions.

Moderator:

We will now begin with the question-and-answer session. The first question is from the line of Praful Kumar from Dymon Asia.

Praful Kumar:

Hi, Sudipta, hi Sachinn, hi everyone. Congratulations, sir, on great execution. Sir, one -- first question is that given that macro prudential provisions are largely used and next year will be much better given all the underlying macro drivers and each of our geographies stacking up very well. Would it be prudent for us to rebuild the provisions in good times as they have helped you in bad times?

Sudipta Roy:

Yes. Thanks, Praful, for that question. As we have indicated in some one-on-one conversations earlier, we would be looking at rebuilding back the macro prudential provisions as and when we have the opportunity of doing that. So as an organization, we are committed to rebuilding it back. However, we would like to rebuild it back from some of the realizations from our ARC portfolios, which some of them are in very advanced stages of resolution. And we probably will have some realizations from them over the next 18 months to 24 months period. And whatever over realizations that we have from them will go towards building the macro prudential kitty once again. So it will not be an immediate exercise. We'll kick off that exercise immediately, but because these assets will keep on resolving over the next near-term horizon, as and when they resolve, we will continue to build the macro prudential provisions from that over realizations.

Praful Kumar:

Understood. And sir, one small question. You had a superb treasury management and the cost of funds is reflecting, one of the first NBFCs to reflect it meaningfully. Despite that NIM plus fees is flat QoQ, is this more the risk calibrated returns that you are contemplating in terms of business model? That's the way to look at it?

Sudipta Roy:

Yes. Sachinn, you want to take that?

Sachinn Joshi:

Yes, sure. So NIM plus fee if you look at each component of the NIM, the yields as we have spoken over various calls, over last -- from the time we began our Lakshya 2026 journey. Initially the NIM actually went up because the yields started going up since we were moving towards retail. A time came about 1.5 years back when the overall retailisation sort of got over, around 95% we had reached, after which the further increase in yields was not possible because retail book replacing wholesale book led to that increase. Post that, last four-five quarters, we have seen that microfinance sector has gone through a challenge and the disbursements also were very calibrated. This led to other businesses growing more than the Rural Business Finance, which naturally meant that the change in mix resulted in the yields coming under slight pressure. But as we have seen in this quarter, the Rural Business Finance, the disbursements have again picked up and we believe we have now come through a major part of that crisis, where our collection efficiencies are already 99.50% as of September. And as this book continues to grow, the pressure will naturally ease. We have also begun from last quarter the journey of growing our gold loan business. This quarter was also very good. We did about Rs. 923 Cr. September month actually was about Rs. 400 Cr plus. So as these higher-yielding book starts growing, we will see the pressure on yields coming down.

We believe that NIM plus fee in the range of 10% to 10.5% seems to be possible. I'm thankful for the interest rate cycle to really change and we are now in the downward cycle. RBI has already given a 100 basis points repo cut. There are also talks about further rate cuts coming in. Yes, because of the way we grow our liability book, the PSL advantage that we have, the mix of that book in terms of short, medium and long-term assets helps us in terms of building up a shorter-term book as well in the form of commercial paper. The shorter end of the curve, you've seen that the interest rates have been lower. And we are yet to fully take advantage of that. If you look at the composition of CPs in this quarter's number is just about 7%, average may be about 8% to 9%, but yes there is a scope to grow this book right up to 13% to 15%. This as well as the full benefit of the rate cut has not yet been passed on by all the banks.

So we believe that there will be still some room to have a reduction in weighted average cost, but significant part of it has actually come in. The third component of this is the fee component. The fees this quarter has been down by about 18 basis points on a quarter-on-quarter basis. But I think the range is very clear, from 1.75% to 1.9% has been the range. And if we continue within that range, I think we should be able to manage the overall NIM plus fee in the range of 10% to 10.5%.

Sudipta Roy:

Yes. And I'd like to just add to what Sachinn said is that our business units are continuously being tasked to improve their yields across the disbursements. And so there is a very sharp focus on making sure that we maintain the yields and with the upward bias across all our lines of business, while maintaining the asset quality as well. So overall, yes, as I would like to echo what Sachinn said, our objective is to maintain it in the corridor of 10% to 10.5%. And we are reasonably confident that we should be able to do that.

Praful Kumar:

Fair enough, sir. Thank you and all the best.

Moderator:

Thank you. The next question comes from the line of Mahrukh Adajania from Nuvama Wealth Management.

Mahrukh Adajania:

Hi, congratulations to you and your team. I just had a few questions. Firstly, the housing disbursements are a little soft on a sequential basis. So is it that you really want to focus on other segments because they are higher yielding? So that's my first question. And then, in general, there has been a growth surprise in the BFSI segment.

Do you see this sustaining? I mean what's your view? And if you could give some colour on fees. I know that you said that because of MFI they are stressed, but for better yielding products, would you like -- or to move up the credit risk curve, would you like to sacrifice some yields? Is that the way to look at some fees? Is that the way to look at it because the benefit on credit cost can be substantially higher?

Sudipta Roy:

Yes. So I'll take them one by one. So the first question was about Home Loans. So we -- obviously, as you can understand that post the rate cut, there have been significant downward pressure on the revision of the Home Loan rates as well as well as the market has transmitted and the market has become very competitive, especially for Home Loans. So what we have been doing is that we have been judicious in terms of not entering into a full-blown rate war and operating in segments where we'll still get the rate efficiency and focusing more against Loan Against Property. So overall, our loan against property disbursements have gone up and our pure home loan disbursements actually has sort of remained on an even keel, which has led to the little bit of moderation in the overall mortgage portfolio growth. And we expect that this will remain in this state for the next couple of quarters. Obviously, we are -- we will look at way by which we can sort of take our or maintain our home loan yields as well. But obviously, the market is very competitive and sort of downward facing in terms of rates. So that is the reason for that. The second question was -- is that -- I didn't get you. You were saying that it has been -- the growth has been surprising? No, I didn't catch that. BFSI growth you said.

Mahrukh Adajania:

No, in general, so not too many results have come, but there has been banking business updates. And all of them have reported better than -- most of them have reported better-than-expected growth. So there is a growth surprise in the BFSI segment. Do you see it sustaining is my question?

Sudipta Roy:

Yes, Mahrukh. I see it sustaining. Obviously, you see, if you see the last 18 months the regulator had been extremely cautious on growth and the regulator had been pressing the brakes on growth for quite some time. However, I think the sort of the asset quality clouds, which were also there on many of the segments, like personal loans, microfinance, has reasonably resolved. And that is why you can see that some of the growth spurt is coming back.

Our microfinance business, if you see the disbursement this quarter has been Rs. 6,300 crores. The previous highest of our microfinance disbursement was in March 2024 when we crossed Rs. 2,000 crores. And this quarter, both in the month of August as well as in the month of September, we have seen -- both months, we have done Rs. 2,000 crores plus. So obviously, there is a demand in the market and there is space in the market for organizations to grow. For example, if you look at our Two-wheeler disbursements on a Q-o-Q basis, they have grown by 12%. Our personal loans disbursement on a Q-o-Q basis has grown upwards of 100%. And primarily, that is because of our focus on our digital channels and all of them have fired in. So yes, there is a growth bias. And I would like to add to that that the numbers for this quarter really do not reflect the GST 2.0 volumes. And if I look at the trajectory in October, especially in our Two-wheeler and in our Farm business, there are an order of magnitude difference from what we saw in September. And I do believe this is not only for us, but this will be seen overall in the industry as consumer sentiment improves, as overall asset quality cloud lifts and as well as there's a massive push towards consumption, thanks to the GST 2.0 reforms and overall customer sentiment improving. So, I do believe H2FY26 for BFSI will be a very strong quarter for growth. And I expect this trend to continue in the latter part of H2 and maybe into FY27 as well. Your third question was on fees?

Sachinn Joshi:

No. Moving up the credit risk curve.

Sudipta Roy:

Yes. So -- so see, what -- we are very, very clear. The fact is that we will do business, and I have guided on several occasions that as an organization, we want to build a cycle resilient business. Now what do you mean by cycle resilient business? Cycle resilient business is that as and when the business moves to cycles or the economy moves to cycles, there will be crest and troughs in the credit risk sort of trajectory. You have to sort of box the crest and troughs in a tight narrow band, so that even when the cycle turns, the risk cost of your portfolio does not go beyond a particular pain threshold. And for that, you can deliver that only when you have about roughly 80% to 85% portfolio, that is the back-of-the-envelope sort of calculation that we have in what I call cycle resilient customers. So yes, obviously, as you move up the cycle, there will be a little bit of downward bias on yields, etc, because your better-quality customers will probably expect a little bit of lower rates. But again, there are ways of balancing that. Customers on digital delivery channels tend to be a little less rate agnostic than customers on physical delivery channels. So overall, obviously, it's a continuous optimization exercise. And I'm quite happy to note that our teams have been sort of faring quite well on this. And on back of the implementation of Cyclops, it also helps us fine price the segments. That means if I have a couple of segments, I am able to pinpoint the risk cost that would arise out of the segment and price it accordingly. So that the risk-adjusted yield that is expected of us operates in a tight trajectory, and the credit cost also operates in a tight trajectory.

So, this is the philosophy going forward. And this is something that as we gain experience more through Cyclops, Cyclops has been in operation for about 18 months -- about 14 months now, 14-15 months now. As we gain more experience, the science will become far, far more sharper and will help us maintain a very, very tight trajectory going forward.

Sachinn Joshi:

I'll just add -- part of just to add, you know, as part of this strategy, in fact, just to bring the pressure down on our dependence only on the rural business finance, we have acquired gold loan business, and that will be one of the key thrust areas because that's a secured book and reasonably good yields. So, we would like to try and balance out. Your question was also on the housing piece, whether it will be -- whether we are soft peddling that. But the fact is that housing book being secured, it's absolutely necessary to be a part of your balance sheet. But at the same time, you cannot accelerate the growth to a level where your NIM plus fee starts getting impacted. So, it will surely be a significant part of the book. It is a significant part, but it has to be supported well by a mix of both secured as well as unsecured books, reasonably high-yielding portfolio so that we have -- we are in a position to give decent RoAs and RoEs that we have targeted for.

Mahrukh Adajania:

Okay. Thank you so much. Thanks a lot.

Moderator:

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

Kunal Shah:

Yes. Congratulations for a good set of numbers. Firstly, maybe in terms of the credit cost trajectory. So earlier also, you had indicated that by end of FY26, we would be closer to 2.3% to 2.5%-odd. And this would be without, I would believe, now the utilization of the buffer. But as you indicated like the larger part of the benefit of all these investments on the credit underwriting side will reflect in FY27, how should we eventually look at the normalized credit cost over the medium term.

Sudipta Roy:

Thanks, Kunal. What we would like as an organization to aim for a 2% credit cost trajectory. That is what we would aim, aim for a 2% credit cost trajectory. So over the medium term, the numbers will tend towards that. Obviously, on a Rs. 1 lakh crores book with what I call a number of high-velocity businesses like Two-Wheeler, microfinance and some of the climate-dependent businesses, on which we literally, as an organization, have no control, like farm business, etc. This have a little bit of cyclicality in this. So though, our objective through our credit models is to take out the cyclicality as much as possible, but we do believe that over the near-term, that means in FY27, we'll trend closer to that 2% target. It's very difficult for me to put my finger on and say which quarter we will hit that. But directionally, you will see the movement. You will see directionally see the movement. We are already seeing the movement through the early indicators of our Cyclops underwritten portfolio. And as you can see, the three businesses, three, I would call the high-velocity businesses, like Two-Wheeler, Farm as well as now in SME, they are already under Cyclops. We're implementing personal loans this quarter. Over the next quarter and probably the first half of FY27, we'll see the implementation in home loans, loan against property as well as rural business finance. So overall, I do believe that through those interventions and through the automated portfolio monitoring that we have, which allow us to see risks much earlier, then it becomes apparent. So, we should be able to trend closer to that 2% risk cost trajectory.

Kunal Shah:

Yes. And you shared the numbers with respect to bounce rates in Two-Wheeler and net non-starters in Farm equipment. But if we want to understand maybe how the credit cost behavior in these two particular segments have been. We have earlier indicated, by September, we should see it picking out and thereafter second half should see a much better improvement out on those front. So, if you can highlight maybe apart from those early indicators, how is the credit cost in these two segments? Where is it settling? And for 2% number, what are we expecting these two segments to contribute in terms of the overall credit cost, yes?

Sudipta Roy:

Kunal, probably going into a couple of, sort of data points over the call might -- this call might be difficult, but I would urge you to attend our Investor Digital Day, where we will give the investors a flavor of this. So, we will try to give some granular flavor of this, which I believe will paint a much more coherent picture than me giving some numbers on the call, which might not give the full picture. So, I would request you that the answers to this will be provided on the 6th of November 2025 in our Investor Digital Day.

Kunal Shah:

Sure. And if one last question, I can squeeze in. So, particularly on the growth, like again, LAP, SME, consumer loans, everything is growing quite significantly. So do we see this scale up continuing? Are we confident with respect to overall personal loans, SME and LAP given maybe there are maybe tariff concerns out there, personal loans, not very sure if it is -- maybe most of them are indicating it is stabilizing and improving. But what is the scale up and what is the proportion which we can take in these three particular portfolios?

Sudipta Roy:

See, again, this is what I would say is that we will have risk calibrated growth. So, the fact is that you have to understand that -- what we have originally guided, we have originally guided is that AUM growth rate between 20% to 25%. This is what we have guided. So again, at times, there are gaps in the market when everything is benign, you might -- and you can have a little bit of higher trajectory of growth. However, our growth is, as we have said in many occasions that, we are a risk-first technology- first company. And the fact is that our growth appetite is tempered by the indications of market risk or emerging risk that we continuously see. So as of now, we see good growth potential ahead, and we are reasonably confident, thanks to Cyclops sort of tapping that growth, without letting any risk hotspots developing in our portfolio. So back of GST 2.0, we see a good spurt in farm business, tractors. We see a good spurt in Two-Wheelers. But again, when we are participating in that spurt, we are very, very clear that we only take that segment of customers that matches our risk profile. Now if that gives us a 20% growth, so be it. If that gives us a 25% growth, so be it. But the fact is that -- so please understand. Here we are not chasing any particular growth number. What we are chasing is risk calibrated growth. Now if the risk calibrated growth makes us hit a particular number, that is the number that we'll report to the market.

So -- but given the fact that we are seeing good customer sentiment, good consumption sentiment and the GST 2.0, especially in the wheel segment pushing disbursements. And it's not only about GST 2.0, for example personal loans. Personal loans, our digital channels have fired really well because the fact is that the extensive model building that we do with each of these partners, with a particular risk cost in mind, help us sort of catch a customer of a particular credit profile. And given the fact that if this digital channels start firing -- because you have to understand that in acquisition, the digital channels, if properly delivered -- if they properly deliver the customer experience, is the least frictionless way of acquisition. And sometimes if the channels are operating at their full stack efficiency, your growth can be very, very high without compromising on risk.

So, overall, it's a -- many factors are here at play. We -- but again, I would like to send the message that we are not chasing any headline growth number. We have guided for an AUM growth for the full year between 20% to 25%. We are confident that we'll hit that. But given if there are gaps in the market, if there are benign spots in the market, if there are markets where risk-calibrated growth is strong, we will not shy away from participating in that.

Kunal Shah:

Sure. Got it. Thanks. Thanks and all the best.

Moderator:

Thank you. The next question comes from the line of Kaitav Shah from Anand Rathi.

Kaitav Shah:

Yes, sir. Congratulations on your -- on a good set of numbers. Sir, if you can share about when you started the journey and as of today, some technological changes that have happened and which you would like to highlight Digital Day coming up, but just for our understanding couple of highlighted points that, you know, you would like to -- that stand out for you, that would be great for us.

Sudipta Roy:

See, I think the biggest sort of change has been our underwriting through our Cyclops underwriting engine. So it is pretty state-of-the- art, already in Version 3. And I'll be very, very honest, when we started building it, and we will give double clicks on some of the results during our Digital Day, when we started building it, we probably did not anticipate the impact of that on some of these high-frequency portfolios so quick. So, some of the results came in very thick and fast and which helped us also optimize that channel also very, very fast, and has given the -- actually the confidence to scale up our volumes as well in this festive period. So, that has been really a transformative initiative. And it's not that it has -- it is delivering result only in the Two-Wheeler business. It is delivering in Farm. It -- SME has gone live. We are seeing the leading indicators in SME also within 2 months, in terms of reduced net non-starter numbers. So -- and I'm 100% certain that it will give the benefit in personal loans as well and SME and MFI and mortgage as it goes -- gets implemented in those going forward.

The next tool, which is Nostradamus, which is our automated portfolio management engine. Again, I do believe that it is something the market is probably not fully aware of what has been built, and we will take the covers off it during our Digital Day. So, you will see sort of the beta version of it during the Digital Day, and we'll be demoing it as well. So that has been another significant achievement.

The introduction of our copilots for underwriting, especially the GenAI-based SME copilot, wherein a file which used to previously take about anywhere between 3 to 4 hours to underwrite is currently being underwritten in sub-30 minutes. And to the extent that the SME copilot also tells the underwriter for the PD questions. It also -- so it sort of indicates. So, that has been quite -- and it's a new rollout that has happened. It went live about a couple of days back. That has been -- and overall, the stabilization of the core engineering platform, the movement of omni platform sales force for all our lines of business, barring microfinance as of now. And also, for example, our PLANET app. Our PLANET app in terms of servicing has been extremely transformative. A large amount of our servicing and sort of cross-sell and acquisition is now carried through our PLANET app. I'm not so sure whether all of you are aware that our PLANET app got awarded the Best Digital Finance Experience Application in FY25 in India in the Global Fintech Fest. We have spent quite a lot of time, effort and energy in sort of building PLANET to absolutely global standards in terms of user experience and user interface. So that was a vindication of that in receiving that during the Global Fintech Fest. And this is not the stop. The fact is that our GenAI-based collection sort of initiatives, including our entire collections calling through voice bots has sort of matured over the last 2 to 3 months, and we expect to scale it up much further and deploy it in customer service as well as in collections with even more frequency across all our lines of business. So overall, I think for us, technology is moving forward on all facets, in credit underwriting, in acquisition, in customer servicing, in collections as well as simplifying the operating processes within the organization as well.

So, as I said, the philosophy of being technology-first is taken very seriously by people in the organization right now. And as an organization, we are focused on lifting the tech DNA of the entire organization. So in a way, I think over the last 24 months, this transformation has gone out quite well.

Moderator:

The next question comes from the line of Avinash Singh from Emkay Global Financial Services Limited.

Avinash Singh:

A couple of questions. First one is on operating expenses. So there is kind of a material improvement there. Also, if you can sort of guide, I mean, going ahead, once things sort of normalized, you have kind of a different way of -- I mean, like your digital sourcing picks up and all kind of things happens. Where is the kind of a steady state probably this opex to AUM will look likely in FY27? I just wanted to know the sustenance of this kind of improvement. And the second, the 2% credit cost guidance you are referring to over medium term, is that kind of assuming some changes to your product mix or is it largely based on the current product mix which you have and with all these -- kind of your Cyclops eventually going to all the product lines, and that leading to the improvement?

Sachinn Joshi:

Thanks, Avinash, for your question. Firstly, let me address the operating expenses related question. The opex, if you recall, we have guided that our opex plus credit cost, which started off as a 7% kind of thing. Slowly and steadily, you would have seen that it has been coming down. It was actually 4% opex, plus 3% credit cost. Credit cost, you've already seen that we actually guided it down to around 2.3% to 2.5%.

The operating expenses, there are 2 components to it. One is the business-as-usual expenses, and the other is the investments that we have been making. You see quarter-on-quarter some changes happening in terms of percentages, more to do with the investments which have been -- which don't happen absolutely on a week-to-week or a month-to-month basis. We have been investing in setting up branches. Last quarter, we have actually set up 84 rural LAP branches. We have also set up meeting centers, about over 150 meeting centers. We have also acquired the gold loan business. So that has also impacted in terms of the incremental opex plus the goodwill that was paid -- the premium that was paid to acquire that business. So, all these are components which go in. And then, of course, the investments in technology. Sudipta spoke about how we have been investing in building up Cyclops, Nostradamus and all. So I think it's a mixed bag. We will continue to be in this growth phase for at least next 15 to 18 months minimum. So, there will be investments because we have to ensure that the future remains intact in terms of building up top line.

The businesses which we built now, especially the last 2 to 3 years, we have built up on SME, micro LAP, personal loans and now we have acquired gold loans. So there will be investments in continuing to build on these businesses plus expansion that we take up for these businesses we'll need some -- both operating expenses as well as capital expenditure.

So, the range now will surely come down from 4% to -- 4% plus 3% to somewhere around -- 7% will come down to about 6.5% and then to 6%. So as these investments stop, you will see this -- directionally, the operating expenses coming even below 4%. But I think there is some time for it because it's very easy to bring down that cost, but then we have to keep the future in mind.

On the credit cost piece and the RoA targets that we have talked about, yes, the key businesses we are already into. We will be starting to work on our Lakshya 2031 plan shortly. We should be done with it, with the Board approvals by April next year. And we would perhaps at that point of time come up with some new businesses. But what we talk about at this point, a significant part of the RoA tree that we spoke about would be -- is a construct based on the current businesses that have enough potential to grow. I hope I have answered your question.

Avinash Singh:

Yes. Very clearly. So that 7% going to eventually 6.5%, eventually to 6%, so probably are you looking like the 6% kind of a thing in FY27 or beyond?

Sachinn Joshi:

Yes, FY27, it's quite possible. Like I said, as of now, there is some visibility on what investments we want to make, right? But as we move into the next year, we will -- if we take a call on introducing some business, then yes, there will be investments required. So rather than going by the percentages, I would suggest that we need to look at where the investments are going in and whether they are going to help us in terms of maintaining the RoA, RoE trajectory and then building on it.

Sudipta Roy:

See, one of the things that we have to understand here is that a large proportion of the cost profile of an NBFC also is collections costs. And the fact is that as the credit clears and as the portfolio quality improves, you see a, pari-passu, dip in collections costs. So, what happens is that it's a multiplier impact. Your credit cost reduces, your collections cost also reduces. And the speed at which that your credit cost reduces, pari-passu, your collections cost will also reduce at the same speed. So in -- what we expect is that over the medium term, as our portfolio credit cost comes down, you will see a release in the credit cost as well -- collections cost as well. And this too will overall push us to -- as Sachinn guided, from that 7% to a 6% trajectory. And we do believe that achieving that somewhere during FY27 is possible. But again, it is contingent on how the market behaves, what is the environmental condition at that point in time, is there a long tail risk, which we do not know right now develops. So, it is too early to comment on this. But I do believe that we should see it sooner than later.

Moderator:

The next question comes from the line of Bhavik Dave from Nippon Mutual Fund.

Bhavik Dave:

Sorry if I am repeating my question because I was out of the call for the first 30 minutes.

Moderator:

Bhavik, I am sorry to interrupt you. There is too much of background noise.

Bhavik Dave:

Okay. So, two questions. One is on the consumer business. Just wanted to understand when we scale it up in terms of disbursement, what is a commensurate cost? Because when I look at your cost line item, that's dipping down. And incremental growth is coming from consumers, where I believe that the payouts are reasonable in terms of originating the business by via partners? So, I just want to understand how is that chugging along, and the growth is higher there, and the costs are inching down? That's one.

And second question is on, again, on the Stage 2 provisioning. What would be the exit for the Stage 2 provisioning coming down quarter-on-quarter? And declining trend, is it because of the better outcome that we're seeing on Cyclops underwriting or is it -- what is the story there will be interesting to hear that?

Sachinn Joshi:

Yes. Bhavik, the first question with regard to the personal loans business. So, the Personal Loan business, as Sudipta mentioned, this quarter, almost 40% of the disbursements have happened through the financial partnerships that we have tied up. The commercials on that are different for each partner. But very clearly, the commercials are much lower than the normal DSA costs, which otherwise are incurred. So, you will see that the cost of doing this business are much lower as well as the fact that the funnel -- the customers that come through this funnel are much more -- are much better in terms of quality because they are more salaried, prime kind of customers, more bank-like.

Number two, the Stage 2 provisioning that you talked about. Stage 2 provisioning, Stage 1 and 2 had the macro prudential provision sitting over there. And as we have been utilizing the cover from Stage 1 and 2 has been going down. So, it's just arithmetic.

Bhavik Dave:

Perfect. Just one clarification on the previous answer is, on the cost that we incur on acquiring these loans and consumers, that is all capex -- that is all expensed out in the quarter itself and would have to pay 1%..

Sudipta Roy:

Yes. So, I'd like to add to what Sachinn said. What we do is that typically -- typically on digital channels, you tend to get a little bit of higher realization than you would get from the same customer on a physical channel. For example, if the customer is willing to give you a 13% rate of interest -- agree to a 13% rate of interest on a physical channel. The same customer when delivered digitally, probably will agree to 14%-14.5%, primarily because the speed of delivery is much, much higher to the customer. So, generally on digital channels, you tend to have a little bit higher realization.

And the second thing is that the digital channels are, I would say -- there are -- if you look at expenses of channels, your DSA channel or direct sales channel is the most expensive channel, followed by the digital channel, which is the partnership channels. Organic digital channels are actually the most expensive, where you generate organic leads from Google or from Facebook, etc. But the direct partnership channels are in the middle cost level, which means that they are cheaper than the DSA. And obviously, the quality that comes along with it primarily because of the various data exercise and the consumption of trust signals from some of these partners, quality is an order of magnitude different.

So, from a P&L standpoint, risk adjustment standpoint, the cohorts are far more better than probably even the DSA cohorts. And the last channel is obviously, which you originate on your own is the cheapest -- is your own cross-sell base, or your own pre-approved base. So, these are the 3 sort of cohorts through which you acquire customers. Again, for us, it's very important to maintain a fine balance between both because we would also not like to maintain a concentration of origination in one channel. We would like to distribute the origination across a couple of channels. So that's why you will find us operating in the DSA channel, you will find us operating in the digital channel as well as you'll find us operating in our own channel as well as our preapproved channel. But overall, the objective for all of us is to make sure that the origination cost is as low as possible and obviously, again, with an eye on quality.

Moderator:

We take the next question from the line of Prithviraj Patil from Investec.

Prithviraj Patil:

Yes. So, my one question is on the MFI part. So, if I look at the 0 DPD collection efficiency that's been mentioned, it's largely in line with what was the last quarter -- last couple of months. It's at 99.5%. So, do we expect this to be the new normal in the MFI lending space or is it supposed to get better from here? Like if you could just throw some light on how to look at this?

Sudipta Roy:

So, you see the 0 DPD collection efficiency, obviously, is at 99.5%, but there is some improvement over what it was last quarter.

Sachinn Joshi:

99.35%.

Sudipta Roy:

Can I have the last -- 99.35%, right? So, the 0 DPD collection efficiency for pan-India was 99.35% at the end of last quarter. It is about 99.5%. So there has been a 15 basis points improvement over the last 3 months period. See, again, we are improving slowly in this. So, the pace of improvement will probably slow down going forward. But again, a large discriminant on this was Karnataka on which we have given the data on Karnataka during the call, where Karnataka, we have seen a significant improvement over the last quarter. Over the last quarter in Karnataka, we have moved from about 98.18% to 99.06%, and we ended September with 99.18%. This is available in Slide 38 of our investor presentation.

We expect this to move further. Over a period of time, which is as we -- between Q3 and Q4, we'll move to about 99.6% -- we hope we'll move to about 99.6%. However, I know we have to see how it pans out in the market. And -- but yes, to answer your question, there will be an upward bias to this particular number. But the climb up from this particular level will be slow.

Prithviraj Patil:

Okay. And if I can just ask another question on the cost of funds?

Sudipta Roy:

Yes.

Sachinn Joshi:

Yes.

Prithviraj Patil:

So, the cost of funds has come down dramatically. So, I just wanted to know what is the reason behind that. Because if we look at the fixed floating split that you have given for the one-year gap, the assets -- the repricing assets are higher than the liabilities. I just wanted to know why the cost of funds have come down.

Sachinn Joshi:

So, a couple of reasons. We had actually gone for some ECB borrowings in fag end of Q1, but the drawdowns and all have happened in tranches. Those have come in at better rates. There have been -- you would have seen the overall mix where we have the direct bank loans PSL and bank loans non-PSL. There are loans which actually come up for -- which are linked to, I would say, either the T-bills or a variable rate, which leads to reduction.

Number three is the commercial paper rate, the short-term rate. We just made a mention of the fact that gold loan business has also picked up. So, our ability to actually -- the ALM permits us to have more short-term assets and correspondingly short-term liabilities in the one-year bucket, which enables us in also taking advantage of the short-term rates.

So, it's a mixed bag and add to it, the liquidity that has to be kept. RBI has been keeping enough liquidity in the system of about Rs. 1.5 trillion to Rs. 2 trillion on an ongoing basis. That also ensures that we don't have to keep liquidity the way we otherwise keep when situation -- external situation is a bit tense. So, it's a mix of all these things, which has actually resulted in a reduction in the overall weighted average cost.

Moderator:

The next question comes from the line of Shreepal Doshi from Equirus.

Shreepal Doshi:

Hi, sir. Congrats on a good set of numbers. My question was on personal loans again. So, in that, what is the customer profile that we're targeting, the CIBIL benchmark and also the pricing that we have at a blended level for that segment? And just harping on the channel partners. So, what are the typical payouts there for DSA and for the online channel?

Sudipta Roy:

So, our focus on personal loans is pure salaried customers. That is our focus area. So, we want to build a portfolio that is 80%, 85% salaried, on the Personal Loan side. So, when we -- for example, if you look at our DSA channel, we do not source customers who are non-salaried. So similarly, on our digital channels, the focus is on acquiring salaried customers. So that's from a customer segment point of view. You can say the average pricing of our Personal Loans product, it varies by channel, but it -- the average pricing varies between 15.5% to 16.5%. So, this is the average pricing of our personal loans portfolio.

And in terms of payouts, the DSA channel typically has a payout of 3%, which is not known -- which is now known widely in the market. But the fact is that for digital channels with every digital partner, we have a different arrangement. So, there are some partners who operate on a low origination fee and a share of profits for portfolio breakeven. So, there are varying models that you have. So, it will be very difficult for me to paint in one particular sort of blend.

Shreepal Doshi:

Okay. So then 15.5% to 16% is a blend -- is a yield bracket. So, then what is the CIBIL benchmark that we have for these customers? And also, so 27% of these customers are existing customers wherein you're doing cross-sell, I guess. So, these -- so that -- so what would be the original, or let's say, the base case product that these guys would have taken from us?

Sudipta Roy:

Yes. The base case -- the cross-sell customers are mostly seasoned vintage Two-Wheeler customers. So, majority of our cross-sell comes from season vintage Two-Wheeler customers. And if you would want to know what is the average, CIBIL benchmark score would be 750 plus is what we would be targeting for most of the customers. And again, if a customer has a much higher score, probably they will get a little bit of risk-adjusted rate. But average would be about CIBIL 750 plus.

Moderator:

The next question comes from the line of Chintan Shah from ICICI Securities.

Chintan Shah:

Yes. Thank you for the opportunity and congratulations on the performance, steady-state performance. So firstly, just harping on the credit cost part again. So, we believe probably it could be around 2-percentage odd by -- over the medium-term. What -- so how are we looking at the portfolio mix over the medium-term, say, by FY27 and given that now, MFI, we already have the guardrails and so it would be a slow moving portfolio for us. So, what would be the typical other portfolios which will be growing at a faster pace? And how would that compensate for the yield part? Yes, that's the first question.

Sudipta Roy:

Over a period in time, we want to move to a secured-unsecured profile of about 65-35, over a period of time. But currently, we are -- our first port of call would be -- about a 60-40 level would be our first port of call. So Gold Loans that we acquired, obviously, is a secured high-yield portfolio. As you heard earlier in the call that we'll be doing 200 more branches during this period in time. So, we will be sort of deploying these 200 branches in the latter part of the year. And then obviously, we have our sort of matrices into high risk, medium risk and low risk. So overall, the way we look at the portfolio is that Gold Loans will continue to grow. Gold loans is a fully secured high ROA, low-risk product, is actually probably the lowest risk product as of now. Then you have mortgage. But mortgage, again, we will balance the growth on mortgage primarily because of the downward rate considerations that we have.

Personal loans, the one we originate -- Personal Loans, obviously, we will originate in a risk-calibrated fashion. MFI, I believe that the geographies that we are expanding, we'll see reasonable growth. I think on a steady-state basis, 15% growth on a year-on-year basis on MFI is still possible. I'm not advocating that MFI should grow at 15%, at a 25%, 30% level as we saw in the previous two years. But I do believe that a 15% growth rate on MFI is a safe speed to grow.

SME, if you see post implementation of Project Cyclops, we are very, very confident of our credit paradigm in SME. So SME business, especially the prime SME business is what we will continue to grow. And Two Wheeler gives us a lot of confidence right now, given the leading indicators from Project Cyclops are fully visible to us and we know that the signs of acquiring risk-calibrated prime customers is working. We will continue to accelerate that. And on the Two Wheeler business, the Two Wheeler business has been tasked within those paradigms to take the rates up northwards by giving -- delivering a much better experience to customers. And so -- and on the tractor business also, we are seeing a lot of credit efficiencies, a lot of collections cost efficiencies. And given the fact that we have healthy reservoir levels, we have good GST 2.0 benefits where the headline GST on tractors have been slashed from 18% to 5%. I do believe that this segment will see very good growth rate in H2 and even going forward into FY27 as well.

So overall, all these -- all categories of our businesses will continue the strong growth trajectory upwards. And as I said earlier in a question, the focus on maintaining the sort of the yields on all these businesses is very, very strong, and we'll try to maintain that.

Chintan Shah:

Sure. And just one last thing from my end. I think you had earlier guided for around 2.8% exit RoA by Q4FY27. So, this is -- this still holds, right? And does this include any benefit from the SR recoveries?

Sudipta Roy:

No. See, the 2.8% to 3% RoA that we have said that we expect to hit somewhere around exit FY27 is without factoring in any SR benefits. It is on an organic basis.

Moderator:

The next question comes from the line of Shweta from Elara Capital.

Shweta Daptardar:

Congratulations on good set of numbers. Sir, I just have one question. Given the fact that we have implemented Project Cyclops now on the MSME financing verticals as well, sir, can you substantiate or quantify in terms of demonstration of improvement in asset quality parameters, say, bounce rate reductions, etcetera? And any headwinds do you still see persisting in MSME portfolio? And how overall trends are stacking up in the industry? That's my one question.

Sudipta Roy:

Thanks, Shweta. The SME business, Project Cyclops full implementation has happened only 45 days back. There has been a smaller sort of -- and when you implement this, we go in a graded fashion. We take a small portfolio. We implement it. And then over a period of time, over, which is 3-4 months' time, we sort of flip the entire portfolio into Project Cyclops. So, the leading indicators of bounce rates, etcetera, on the SME portfolio, SME underwritten Project Cyclops portfolio, Project Cyclops underwritten portfolio is encouraging. But I would say it is too early for me to give any indications that it is working well. Probably by the time we move into the Digital Day on the 6th of November, we'll have some early reads. So, on the 6th of November, probably we'll be able to answer this question of you with a far greater degree of confidence than immediately that whether there is a meaningful difference. We have seen a small cohort. There is a meaningful difference in a small cohort. But by 6th of November, we probably will see a full month of underwriting coming through. So probably we'll be able to give more nuanced details there.

So -- and overall on the SME segment, yes, we saw some risk develop on the outside margin, especially on SME ticket sizes of Rs. 25 lakhs and below. But if you see our average ticket size on SME is between the range of Rs. 65 lakhs to Rs. 70 lakhs -- sorry, Rs. 29 lakhs, sorry. Yes, Rs. 29 lakhs. So, we operate on the -- in the UBL, especially, we operate on the higher end of the spectrum. And we saw some of this risk on the margin developing almost 6 months back. And we acted at that particular point in time and tightened our guard. So as of now, we see dissipation of some of those initial risk indicators that we had seen. And after Project Cyclops has got implemented, we are pretty confident of the risk trajectory going forward.

Moderator:

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

Abhijit Tibrewal:

So just trying to understand this, like in the previous few participants, you gave a very detailed commentary on how we are looking at growth across our different segments. If you could also cover what are the asset quality trends, again, qualitatively, in the various product segments where we are...

Moderator:

Abhijit, I do apologize to interrupt you there. Your voice is not audible.

Sachinn Joshi:

We can't hear you.

Moderator:

Abhijit, we do apologize to interrupt you there. Sir, Abhijit has left the call and the question queue. Ladies and gentlemen, we take that as the last question and conclude the question-and-answer session. I now hand the conference over to Mr. Sudipta Roy for his closing comments.

Sudipta Roy:

Thank you. Thank you for joining us on the call. I -- before I close, I would like to invite all of you for our Digital Investor Day on the 6th of November. The invites of that will be going out shortly from our Investor Relations team. On the 7th of November also, we have RAISE, which is our AI conference, which is organized by L&T Finance. And this year, we have got a marquee lineup of speakers. And this is going to be bigger and better than last year. And we have Pitch Point this year, which is the AI start-up competition, as well. All the details and the agenda is available on www.ltfraise.com.

All our investors will be auto registered for RAISE as well. And we will be happy if you can share part of the time out of your busy schedules with us on 7th of November as well, where in the demo section, we'll be showcasing some of our sort of tech developments as well, which are in live -- in production.

This quarter obviously has been the quarter in which we continue our normalization trend towards some of the business lines which had seen some headwinds in the previous couple of quarters. On the back of GST 2.0 and on the back of the good monsoons, I think we're going to see very good consumer sentiments in H2, which will lead to greater offtake of products and services and which will obviously boil down into better credit demand. And we are hopeful as an organization, we'll be able to participate in that in a calibrated fashion.

I wish all of you and all of your families a very happy Diwali and best wishes for the festive season ahead. Thank you so much, and I look forward to meeting many of you on the 6th of November at our Digital Investor Day. Thank you so much.

Moderator:

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

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