May 5, 2026

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 – Q4FY2025-26 and FY2025-26 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 Q4FY2025-26 and FY2025-26 financial performance and strategy update held on April 27, 2026.

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**

Apurva Neeraj Rathod
Digitally signed by Apurva Neeraj Rathod
Date: 2026.05.05 17:49:38 +05'30'

Apurva Rathod
Company Secretary and Compliance Officer

Encl: As above

L&T Finance

L&T Finance Ltd.

Q4 FY26 & FY26 Earnings Call Transcript

April 27, 2026

Management Personnel:

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

Mr. Sachinn Joshi (Whole-time Director - Designate & Chief Financial Officer)

Mr. Raju Dodti (Whole-time Director – Designate & Chief Operating Officer)

Mr. Karthik Narayanan (Head – Investor Relations)

Moderator:

Ladies and gentlemen, good day, and welcome to the L&T Finance Limited Q4FY26 and FY26 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 call concludes. Should you need assistance during the call, please signal the operator by pressing '*' then '0' on your touchtone 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 Before we proceed, as a standard disclaimer, no unpublished price-sensitive information will be shared during the call. Only publicly available documents will be referred to for discussions during interaction in the call.

While all efforts would be made to ensure that no unpublished price-sensitive information will be shared, in case of any inadvertent disclosure, the same would, in any case, form part of the recording of the call. Further, some of the statements made on today's call may be forward-looking in nature. A note to this effect is provided in the Q4 results presentation uploaded. 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, everyone. I welcome you all to the investor call for Q4FY26 and the close of the financial year 2026. Today with me on the call are our CFO, Mr. Sachinn Joshi, and our Chief Operating Officer, Mr. Raju Dodti, along with the senior management team of L&T Finance.

As you may have gleaned through the exchange notification, I am pleased to welcome Mr. Sachinn Joshi and Mr. Raju Dodti as Whole-time Directors designate onto the Board of L&T Finance, obviously subject to necessary approvals.

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 and financial performance. In today's call, we shall focus on the performance update for Q4FY26 and FY26, alongside sharing our roadmap for our five-year strategic plan, Lakshya 2031.

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 pointers on the current macroeconomic scenario and sectoral outlook, which becomes important given the volatile global scenario and the ongoing energy market disruptions.

Amidst ongoing geopolitical tensions and volatile global conditions, India's economic activity continues to be resilient. The economy has performed better than expected throughout the year, laying the groundwork for continuous upward revision to forecasts. According to NSO's second advance estimates, with the new base year being 2022-23, real GDP growth is placed at 7.60% in FY26, up from 7.10% in 2024-25. The pickup has been led by steady private consumption, both in urban and rural, and sustained investment in sectors like construction, power, production of electronics, and capital goods, etc.

Domestic demand remains strong, supported by both rural and urban demand, GST rate rationalization, and monetary easing. Structural reforms, favorable financial conditions, and the government's thrust on

infrastructure spending have aided investment activity and bodes well for sustained strength in demand conditions. The government's focus on scaling up domestic manufacturing in several strategic and frontier sectors augurs well for India's long-term growth trajectory.

Against this broadly resilient backdrop, spillovers from the ongoing West Asia conflict pose potential downside risk. However, as per RBI's assessment, strong fundamentals, including sustained growth, low inflation, and fiscal consolidation, provides India the wherewithal to withstand the adverse impact of heightened global uncertainties. The IMF has also raised India's FY27 GDP growth forecast, highlighting resilience despite global risks and the Middle East tensions and high oil prices, keeping India among the fastest-growing major economies yet again. While the duration and intensity of the West Asia conflict and its broader macroeconomic implications are yet to be fully ascertained, we remain hopeful that the resilient domestic demand and coordinated policy support will provide the wherewithal to withstand the adverse impact of such global uncertainties.

Q4FY26 Highlights:

Coming to this quarter's highlights, I am pleased to inform you that we have concluded FY26 with our highest ever annual profit after tax of ₹3,003 Cr, up by 14% YoY, before a one-time impact of Labor Code of ₹21 Cr post-tax in Q3FY26.

Our quarterly profit after tax for Q4FY26 stands at ₹807 Cr, up 27% YoY. This has been achieved on the back of highest-ever quarterly retail disbursements of ₹24,107 Cr, up 62% YoY, with contributions received from all our lines of business. For context, we had posted Retail disbursements of ₹14,899 Cr in the corresponding quarter in the previous financial year. This significant thrust of disbursement momentum YoY has been the result of our continuous focus on risk-calibrated growth in all lines of business during FY26, duly supported by our next-gen credit administration framework, Project Cyclops. The Retail book now stands at ₹1,19,508 Cr, reflecting a growth of 26% YoY, while the overall book size reached ₹1,21,728 Cr in FY26 and a RoA of 2.4%, reflecting a growth of 18 basis points YoY in Q4FY26.

This quarter, we registered a strong growth in total income, which grew 26% YoY and 4% YoY, with a PPOP growth of 31% YoY, aided by an increase in our NIMs+Fees to 10.47%, a sequential increase of 6 basis points, largely driven by a sharp focus on yield optimization across businesses, fee improvement, and efficient liability management. In the last call, I had emphasized upon our trajectory of paring credit costs on account of implementation of structural credit policy measures in our businesses and the realization of positive dividends of the early implementation of Project Cyclops in Two-wheeler, SME, and Farm businesses. I am pleased to inform that consequently, credit costs moderated to 2.64%, a 19-basis points reduction from the previous quarter.

I would like to take some time to share a brief update on the broad themes outlined in our guidance last year. In the corresponding quarter the previous year, when we spelled out the guidance for FY26, I had focused on four broad themes: resumption of the growth trajectory in our Rural Group Loans and MFI (RGL and MFI) business, growth being the primary agenda across all our lines of businesses, granular focus on building opex efficiencies in our collections and credit administration verticals as a byproduct of Project Cyclops implementation, and enhancing productivity of our sales channels. I am pleased to state that we have tirelessly worked on these four themes throughout FY26, and the profitability and the growth that you see today are a result of the continuous efforts of our teams making significant progress on these initiatives. Our RGL and MFI business has showcased sustained resilience and uptick in both disbursement volumes and the complete restoration of collection efficiencies to the pre-crisis level of 99.8%+.

As far as productivity enhancement is concerned, we have granularly focused on improving productivity and throughput across all lines of business using digital tracking tools. For instance, in our microfinance business, the productivity per field-level officer increased to ₹16.1 lakhs in Q4FY26 from ₹11.7 lakhs in Q4FY25, up 38% YoY. While our Personal Loans business, the productivity has increased to ₹1.6 Cr per sales manager in Q4FY26 from ₹1 crore in Q4FY25, up by 60%. And the Two-Wheeler business displayed an increase of 36% from ₹14 lakhs to ₹19 lakhs. Similarly, our Retail Housing business, the throughput per employee registered an increase of 11% to ₹1.96 Cr in Q4FY26, and our SME business registered a productivity increase of 6% to ₹3.11 Cr from ₹2.93 Cr in Q4FY25. In the Farm business, the productivity increased from ₹57 lakhs to ₹63 lakhs, up by 11% in Q4FY26. We continuously benchmark our productivity ratios with our peer group, and while we compare favorably, we will continue to strive to improve further. We have taken concerted measures with the help of our digital tracking tools to enhance optimization of deployment of manpower while also providing opportunities to use them for cross-selling other products. This, coupled with the opening of our multi-product Sampoorna branches, will help us to augment productivity and bring in operational efficiencies while helping us to focus on cross-sell in a concerted manner.

As all of you are aware, L&T Finance as an organization has been investing consistently in building and deploying proprietary AI tools to help us sell, underwrite, collect, and operate more efficiently. We consider ourselves as one of the pioneers in adoption of AI at scale in the Indian BFSI sector, and we intend to keep this strategic lead as the world moves towards increased adoption of AI-led efficiency. To this end, we will continue to invest in the latest AI tools, both hardware and software, and make an attempt to acquire market-leading talent to retain our execution lead. Our annual AI conference, RAISE, is already considered the most definitive AI conference in the BFSI sector in India, and we will continue to strive to maintain the thought and execution leadership in this space.

To substantiate our position as India's leading AI-enabled organization in the BFSI sector, we will start giving performance metrics on our AI initiatives on a half-yearly basis starting with this results cycle. I would like to draw your attention to slide number 20 on the investor presentation, where we have given the early credit performance metric of our Project Cyclops Two-Wheeler portfolio benchmarked against industry over a period of 10 months. We are pleased to note that Project Cyclops has outperformed the industry by a wide margin during the aforementioned observation window. Slide number 21 gives details on the effectiveness of the AI interventions in our collections vertical, especially in measurable activities like pre-delinquency management and self-cure. It is to be noted that our successful AI-driven pre-delinquency management and self-cure resolution process has significantly lowered our cost of collection across all our urban finance products. The number of AI co-pilots and tools used by our operating departments have mushroomed, and we have given a complete listing of the successful implementations in slide number 22. Our Helios co-pilot for SME underwriting has significantly reduced the underwriting TAT for our SME clients, and we expect to improve this even further with deployment of additional modules in Q1 FY27. We also intend to embark on a pan-organization tech DNA upgrade exercise this year, where our operating managers and distribution workforce would be equipped with AI productivity tools and training to use the same efficiently.

Project Nostradamus, L&T Finance's AI-driven automated real-time portfolio management engine that went completely live in the Two-Wheeler Finance business in November'25, has started delivering measurable outcomes in predicting and containing portfolio risk at a granular micro-market level, and we expect to implement it in our Personal Loans business in Q1 FY27. This would be followed with implementation of Project Nostradamus in the Rural Business Finance vertical in Q2 FY27 and subsequently in the SME and Farm businesses.

Update on Lakshya 2026 Goals

As we have concluded Lakshya 2026 and now embarking on Lakshya 2031, we would like to give you a final update on Lakshya 2026 metrics and the aspirational goals for Lakshya 2031.

- Against the target of Retailisation of greater than 95% by FY26, we have achieved a Retailisation of 98% at the end of the plan.
- We have outperformed the Retail book growth target of 25% CAGR across the plan by clocking a CAGR of 28% across the Lakshya '26 plan.
- The organization achieved the asset quality goals with our consol GS3 and NS3 standing at 2.88% and 0.96% respectively against our target of GS3 of less than 3% and NS3 of less than 1%.
- With regard to the last goal of achieving RoA of 2.8% to 3%, we achieved a RoA of 2.4% in Q4FY26. During the large part of the strategic plan's tenure, we remained on track to achieve our Lakshya RoA target of 2.8% to 3%. However, we faced certain headwinds on account of the microfinance crisis, which set us back on this front by a few quarters. We are hopeful that we will achieve this RoA goal by the exit of Q4FY27.

Lakshya 2031 Strategic Plan

I would now like to share our Lakshya 2031 goals, which will serve as our North Star for our next phase of institutional transformation designed to establish L&T Finance as India's premier AI-enabled, risk-first, tech-first, multi-product retail financier of choice. This plan is a result of rigorous bottom-up granular business analysis and exhaustive peer benchmarking, ensuring that our growth opportunities are risk-calibrated, while taking advantage of the market share gain in the opportunities that we have identified. We are focusing on tech-enabled granular execution to sharpen our competitive edge, allowing us to maintain dominant market leadership in our fulcrum business segments. While developing sufficient market presence in our new business lines.

The measurable goals for Lakshya 2031 are as follows, as shared in slide number 9 of the analyst presentation:

- We will attempt a Book growth CAGR of 20%+ over the Lakshya period
- We will endeavor to drive Credit Costs down to a level of 2% or less
- We will target to reach a Return on Assets in the range of 3.0% to 3.2%
- We will strive to deliver a Return on Equity in the range of 16% to 18%

The successful achievement of the stretch targets of Lakshya 2026 plan period gives us confidence of achieving the goals we have set for ourselves in the 5-year Lakshya 2031 plan period.

I would also like to take this opportunity to brief you about the go-forward plan on FY27.

As we enter FY27, the first year of our 5-year strategic plan Lakshya 2031, we expect the momentum gain in FY26 to sustain, with AUM growth of over 20% supported by robust consumer demand in urban finance, gold loans and our rural franchise, while maintaining a calibrated and quality-led approach to expansion.

From a profitability and RoA standpoint, the investments that we have made over the last few quarters position us well for operating leverage to play out meaningfully in FY27. We expect our NIMs+Fees to remain stable in our guided range of 10% to 10.5%, while credit costs should trend lower in the range of 2% to 2.2% by Q4FY27 as newer portfolios season and our AI-led underwriting frameworks mature

further. At the same time, we will continue to add rapidly to our gold loans distribution footprint and our multi-product Sampurna branches while deepening cross-sell opportunities across our customer base of close to 3 Cr customers. We will also expand our Two-Wheeler and Farm Equipment distribution footprint by covering our hitherto uncovered dealer base. We will build and operationalize an AI-based cross-sell and service engine this year, thus completing the modular intelligence framework for our technology architecture as first detailed during the Investor Digital Day in November 2024. Overall, we see FY27 as a year where the foundation built over the last 12 to 18 months begins to deliver consistent high-quality growth with lower credit cost profiles leading to improved profitability and return metrics. As I mentioned earlier, by the last quarter of FY27, we are targeting to achieve a RoA of at least 2.8%.

As announced through our exchange declaration on Friday, the Board approved the setup of a payments platform by L&T Finance to take advantage of the rapidly evolved digital payments and commerce landscape in India and to build a responsive and a personalized payments framework for our rural and urban customers. The focus will be to infuse the strong AI expertise gathered by L&T Finance into the payments domain through an agentic commerce paradigm. The organization has already started laying the blueprint for the same and expects to operationalize the platform by Q2 FY27. The payments business will strategically serve as a catchment for new customers acquisition, diversification of fee revenues and simultaneously will capture rich transaction data for use in our lending businesses through our proprietary AI tools. We'll keep you periodically updated on the progress of this initiative.

Double Click on the 5 pillars of execution

As mentioned earlier, I would now like to give you a brief update on the five pillars of execution that we had enumerated in October 2023 and continue to be in implementation mode against the same.

1. **Customer acquisition -** The focus continues to be on maintaining customer acquisition momentum both vertically and horizontally while proactively implementing credit adjustments to ensure sustained portfolio quality. To ensure focus on acquiring new non-leveraged MFI customers, the team focused on deepening reach into new non-covered villages. Hence, the number of new villages, zero disbursement villages, activated for the rural group loans and the MFI vertical stood at 28,335 villages in Q4FY26 as against 27,146 villages in Q3FY26. We are also expanding our geographical footprint in UP, Maharashtra, Andhra Pradesh, and Assam. This quarter, we have added a total of 8.3 Lakh new customers, which is the highest ever, and with this, our overall customer franchise stands at about 2.8 crore unique customers at the end of FY26. The Two-Wheeler Finance segment also saw renewed growth by reactivating dealers to target prime customers. Further details around customer acquisition and repeat share are available on slides 27 and 28 of the investor presentation.

2. **Sharpening credit underwriting -** I've already spoken at length on the impact of our proprietary credit underwriting engine, Project Cyclops, which is now live in Two-wheeler, Farm, SME, and Personal Loans and will be further extended to Home Loans and Rural Business Finance in FY27.

3. **Futuristic digital architecture -** We continue working on upgrading our technical capabilities and our focus on continuously strengthen our IT framework remains unabated. I've already spoken about the Project Cyclops and Project Nostradamus. This year, we saw the launch of 20 plus new digital journeys, among which the HL Neo 2.0 journeys led to 2x productivity and the 3x performance in our Farm Ops portal as well. We enhanced credit governance through the Sachet app and an EWS investigation portal for early warnings. These advancements have built a highly efficient, scalable, and secure digital infrastructure for our retail future.

4. **Brand visibility -** We continue to focus on targeted engagement through multi-channel and multi-product brand building with Jasprit Bumrah as our brand ambassador. We expanded brand visibility through targeted branch initiatives and event participation, including the

branding of 200 new gold loan branches and the presence at a flagship business loan industry event. To also reach captive audiences, we also have implemented airport branding across multiple cities.

5. **Capability building -** On the capability building front, as you are aware, we have taken a series of measures during the year. During the quarter, we have completed our annual long-range planning cycle across all verticals, reinforcing the alignment of function-level talent strategies with our overarching business objectives. On the employee initiative front, we launched the Employee Engagement Service, including the third edition of the Great Place to Work survey, to enable the management to effectively listen to the voice of its employees. Additionally, gold loan expansion remains on track with 330 branches live as of Q4FY26. Notably, 30 of these new locations are integrated into our multi-product Sampoorna branch network. We intend to deploy 400+ new gold loan branches this year, of which at least 100 would be Sampoorna branches. This reflects to fostering -- this reflects our commitment to fostering a high-performance culture and scaling our physical presence to serve our customers better.

.

Update on Wholesale Business

Now I would like to give you an update on the wholesale business and the related investments in security receipts with the ARCs. The wholesale book has been reduced from ₹2,582 Cr in FY25 to ₹2,220 Cr in FY26, a reduction of 14% YoY. The net security receipts book has also been reduced from ₹5,862 Cr in FY25 to ₹4,808 Cr in FY26, down 18% YoY, mainly due to monetization of assets driven by active stakeholder negotiation, completion of projects, and subsequent sale of constructed units and recovery measures implemented through legal action. Details of the same are available on slide number 15 of our investor presentation.

With wholesale ARC book reduction progressing satisfactorily, we'll continue to work with the ARCs, focusing efforts towards further reduction in outstanding SRs.

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'll be walking you through the financial performance of the company for the quarter.

Quarterly Performance:

- Consolidated NIMs+Fees for the quarter stood at 10.47% versus 10.15% for Q4FY25 and 10.41% for Q3FY26
- Consol PAT for the quarter was ₹807 Cr, up 27% YoY
- Quarterly retail disbursements stood at ₹24,107 Cr, up 62% YoY
- Retail book stands at ₹1,19,508 Cr, up 26% YoY, and our consolidated book stands at ₹1,21,728 Cr, up 25% YoY
- Consol RoA stands at 2.40%, up 18 basis points YoY
- Consolidated RoE stands at 11.71%, up 158 basis points YoY

Annual Performance:

- Consolidated PAT at ₹2,981 Cr, up 13% YoY. If we exclude the one-time impact of Labor Code, which was there in Q3 FY26, PAT stood at ₹3,003 Cr, our highest ever
- Consolidated NIMs+Fees at 10.33% versus 10.59% for FY25
- Highest-ever annual retail disbursements of ₹83,213 Cr, up 39% YoY
- Consolidated RoA after one-time exceptional items stood at 2.37%, down 7 basis points YoY. Before one-time exceptional item, it is 2.39%
- Consolidated RoE at 11.25%, up 38 basis points YoY. Before one-time exceptional item, it is 11.33%

Now before I move on to our retail business performance, I would like to briefly talk about our annual ECL model refresh. We have already provided a detailed impact of annual ECL model refresh in slide 13, but would like to just reiterate the same.

The company undertakes refresh of the ECL model annually, including recalibration of probability of default, that is PD, as well as loss given default, LGD, methodologies across stages. The model refresh also incorporates updated assumptions and forward-looking risk parameters.

This year's ECL model refresh has resulted in release of ECL provisions of ₹301 Cr. These were carried as management overlays over and above the provisions required as per ECL model. ₹290 Cr were in Stage 3 and ₹11 Cr in Stage 2. There is a corresponding increase in ECL provisioning of ₹301 Cr in Stage 1.

Additionally, as part of this exercise, ₹125 Cr of macro-prudential provisions have also been subsumed within the ECL model. This leads to improved provision coverage on performing Stage 1 book, which constitutes a substantial around 96% of the total exposure, from 0.52% in Q3FY26 to 0.80% in Q4FY26.

The PCR on Stage 2 assets improves marginally from 23.23% in Q3FY26 to 23.59% in Q4FY26.

Correspondingly, the PCR on Stage 3 asset comes down from 73% to 68%, which is an adequate level of coverage and does not in any way diminish or impact existing coverage requirement as per model within Stage 3.

Overall, this does not have any P&L impact, which exhibits structural consistency and balance sheet resilience. This exercise strengthens the company's credit risk framework and reflects its continued focus on prudent credit risk management.

Retail Businesses:

Rural Business Finance

The Business registered quarterly disbursements of ₹7,208 Cr, up by 41% YoY, and annual disbursements stood at ₹25,882 Cr, up 24% YoY, mainly on account of improved collection efficiencies and sectoral trends. The book size reached ₹30,805 Cr, up 6.3% QoQ and 17% YoY in Q4FY26.

Farmer Finance

In the Farmer Finance vertical, quarterly disbursements stood at ₹2,037 Cr in Q4FY26, up 16% YoY, while the annual disbursements stood at ₹8,674 Cr, up 9% YoY. The book size reached ₹16,970 Cr, reflecting a growth rate of 12% YoY.

Urban Finance

Talking about Urban Finance, which comprises Two-Wheeler, Personal Loans and Home Loan / LAP business, saw a 61% YoY jump in overall quarterly disbursements, ₹9,850 Cr, and a 38% jump in annual disbursements, totaling to ₹34,514 Cr. As a result, the overall book size increased to ₹59,048 Cr in Q4FY26, translating into a 29% YoY growth.

- **Two Wheelers:** The Two-Wheeler business registered quarterly disbursements of ₹2,930 Cr in the quarter, up 58% YoY and annual disbursements stood at ₹10,787 Cr, up 16% YoY. The book size increased to ₹14,372 Cr, up 17% YoY with 90%+ of March'26 Two-Wheeler disbursements in the prime segment. We continue to prioritize high-quality growth and optimize risk-adjusted returns.
- **Personal Loans:** In the Personal Loan business, we achieved our highest-ever quarterly disbursement of ₹3,786 Cr, translating into a growth of 98% YoY and annual disbursements stood at ₹12,220 Cr, up by 100% YoY, with the book size of ₹14,666 Cr, an increase of 70% YoY. The double-digit growth is attributed to the scale-up of digital channels.
- **Home Loans / LAP:** In the Housing Loan business, we achieved quarterly disbursements of ₹3,134 Cr, up 34% YoY and annual disbursements stood at ₹11,507 Cr, up 20% YoY. The book size reached ₹30,009 Cr, an increase of 20.00% YoY.

SME Finance:

In the SME business, quarterly disbursements stood at ₹1,838 Cr, up 20% YoY, and annual disbursements stood at ₹6,130 Cr, up 23% YoY. The book stood at ₹8,507 Cr, up 30% YoY. The growth in business volumes was aided through an increase in direct sourcing and an existing strong network of distribution channels.

Gold Finance:

In the Gold Finance business, quarterly disbursements stood at ₹2,779 Cr, up by 97% QoQ and the total annual disbursements for FY26 reached ₹6,700 Cr. The closing book reached ₹2,845 Cr at the end of the year, representing a significant growth of 63.7% QoQ.

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

Sudipta Roy:

Thank you, Sachinn.

In summary, our performance in Q4FY26 has been satisfactory and overall performance for FY26 has been up to our expectations despite a difficult start due to the Karnataka microfinance ordinance issue. We have started the new financial year on a strong footing, with disbursement momentum keeping pace with the previous month and we are reasonably confident of a strong growth trajectory in FY27. As we go forward in FY27 with the backdrop of the West Asia geopolitical tensions and the possibility of El

Niño conditions later during the monsoon season, we are hopeful that we can maintain the upward momentum in risk-calibrated growth and profitability in FY27 and beyond as we continue our journey of executing the Lakshya 2031 plan.

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

Moderator:

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We take the first question from the line of Shreya Shivani from Nomura. Please go ahead.

Shreya Shivani:

Yes, thank you for the opportunity. Congratulations on a good quarter, a good year. So my one question is actually going to be about the impact of the West Asia war. In terms of we have all these AI capabilities and are probably be able to see the data quite upfront versus many other players.

Is there any areas of concerns that you can highlight, whether it be across your SME book, whether it be across your personal loan book? Also going ahead this year, there are a couple of headwinds in terms of the rural economy can face because of El Niño, there are headwinds of the war continuing to cause disruption or maybe causing inflation later in the year, etcetera. So how are we thinking about the full year across certain critical segments which are susceptible to the monsoon impact, for example? So that's my one question. Thank you.

Sudipta Roy:

Thank you so much for the question. So, at the outset, let me tell you that though the West Asia crisis continues to go on, the domestic consumers have been largely shielded from any energy shock as of now, barring the little disruption on LPG supplies that we saw. However, there are, there have been sort of tightened supply of industrial gases, etc. which has also impacted some of the SMEs.

As of now, we really do not see any significant worsening either of any or impact rising out of the West Asia crisis on any of our portfolios, whether it be SME or any other portfolio like Rural Business Finance vertical or Tractors or Two wheelers. As of now, there is no visible impact. However, we continue to be cautious.

One of the things that we remain -- continue to be cautious is the fertilizer supply because the Kharif season is down the corner and many of the input stock for fertilizer production as well as some of the commonly used fertilizers originate in and transit through the Middle East, Middle Eastern corridors.

So, if the crisis does not resolve in time for the Kharif sowing season, then we might see some sort of constriction of supply, fertilizer availability there, which might have downward impact on yields on some of the agricultural produce later. So, these are all second-order or third-order impacts.

Obviously, we are cognizant of the energy shock that might come at some point in time because the fuel prices, the oil prices continue to be at a higher level. So, we obviously are looking at being cautious in our approach to the urban unsecured lending, especially in the SME business as well as in the personal loans business.

But I would like to point out that our focus for the last 2 years have been more of prime customers. And we do believe that our prime customers have a larger factor of safety, in terms of dealing with the vagaries of economic cycles than the more sensitive below-prime or near-prime customers. However, we remain vigilant.

Our portfolio management engine Nostradamus, which is in Two-Wheeler is already giving us measurable benefits. We're implementing it in Personal Loans as well. So, we will probably be able to see any risk pocket developing much, much earlier than maybe others. So, in conclusion, we remain vigilant. As of now, there are no immediate signals that we are seeing of worsening of credit parameters that is directly related to the West Asia crisis, but we will have to monitor this space continuously.

Shreya Shivani:

Right. And just a follow-up here, your plus 20% AUM growth guidance for FY27 is inclusive of all these concerns that you've talked about, right?

Sudipta Roy:

We have taken everything into concern. See the fact is that as of now, we remain committed to that 20%+ growth guidance. However, if there are unseen geopolitical shocks that might happen, later during the year, those are not factored into the guidance. However, as of now we stand by the 20%+ guidance.

Shreya Shivani:

Okay, that's, very helpful. Thank you and all the best.

Sudipta Roy:

Thank you.

Moderator:

Thank you. We take the next question from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah:

Yes, thanks. So, a couple of questions. Firstly, you have spoken about the AI and efficiencies which it can bring in. Just if you can touch upon within the overall guidance, both near-term as well as maybe 2031 guidance with respect to how the cost ratios should pan out, be it in terms of cost to income as well as cost to assets, that would be helpful.

And second question is on ECL model refresh. So, the contingency buffer has been subsumed and I presume it was in the Stage 2. So ideally, when we look at the release from the Stage 2, then ex of contingency, it wouldn't have been anything related to PD or LGD, if that can be clarified. That will be useful because there is hardly ₹11 Cr odd and ₹125 Cr was contingency. And so, we don't carry any contingency as of today within the ECL. That clarification would also be helpful. Yes, thank you.

Sachinn Joshi:

Yes, Hi Kunal, thank you. So, let me take the second question first. On the macro-prudential provisions utilization, the Stage 1, 2, and 3, when the recalibration has been done. Anyways, when we show this slide on Stage 1, 2, 3, yes, you're right, ₹125 Cr was part of Stage 2 itself. As we have recalibrated, just the – ₹125 Cr has been subsumed primarily taking into account the last four to five quarter challenges that have happened at the micro-loan sector.

The requirement naturally increases because ECL model runs at a lag. We have actually this quarter come out of this whole challenge with March ending at 99.8% collection efficiency, right? But the ₹125 Cr which was remaining is anyways part and parcel. Earlier it was separately available, now it is part and parcel of Stage 1 and 2 as part of the ECL model itself. So, it's not gone anywhere.

Anyways, it is just strengthening the same piece. It's just changed the color, that's it. Going forward, as we step into the next financial year, whenever there is a possibility and a requirement, we will anyways continue building macro-prudential provisions which will take care of the future events. So, this is as far as the macro-prudential is concerned.

In terms of the Lakshya 31, the opex to book range, I think we are looking at a range of 3.75% to 4% range, primarily keeping in mind the investments that will be required because over the next 5 years, there will be further investments in technology which will be required, investments in setting up

branches, gold loan, micro-loan, micro-LAP, these are the businesses which we will continue investing in and the branch network -- setting up the branch network comes at a cost. So, we have continued to factor these in when we build the Lakshya 31 projections. So, I hope I have answered both.

Kunal Shah:

Yes, and near-term cost ratios?

Sachinn Joshi:

Near-term cost ratios will be...

Kunal Shah:

Yes, it will be same or maybe you could see some positivity.

Sachinn Joshi:

Yes, so as far as the operating expenses are concerned, if you talk about FY27, we intend to, assuming that the external conditions remain normal, we continue to plan setting up about 150 to 200 micro-loan branches, further 150 to 200 micro-LAP branches, and about 400 to 500 gold loan branches.

Now these will come at a cost, and hence we've said that the credit cost trajectory coming down, exit we are expecting, exit Q4FY27, we are expecting it to come down to a range of 2% to 2.2%. So, keeping the reduction in credit cost in mind and investments to continue in FY27, I think we are looking for an RoA target of 2.8% to be achieved by exit FY27. Basically, the Lakshya 26 target of 2.8% to 3%, we expect to achieve with a lag of about four quarters because we are out of the crisis now and we should start moving towards achieving that target.

Kunal Shah:

Perfect. Thanks, yes, that's helpful.

Sachinn Joshi:

Thank you.

Moderator:

Thank you. We take the next question from the line of Pranuj Shah from 3P Investment Managers. Please go ahead.

Pranuj Shah:

Hi, thank you for the presentation and taking my question. So first one is just on the fee income. It is relatively tepid if I compared to your disbursements growth of 61% and 6%. So, is this MTM losses that is pulling this down or what is this exactly?

Sachinn Joshi:

No, fee income does not include any MTM losses. Primarily there is an amount of liquidity income. So, depending on the liquidity that is kept, we have the income coming in as part of the interest cost. And if there is a negative carry on that, that comes over here. So otherwise, the disbursement trajectory, the processing fee and the CLI income remain range-bound in that.

Pranuj Shah:

But do you expect this to grow in that 20% range in line with your AUM and disbursement target for next year, the fee income?

Sachinn Joshi:

I think fee income has continued to remain in the range of about 1.7% to 1.8%, 1.9%. There are quarters where we receive something more, quarters where we receive something less. So, I think the range, rather than looking at standalone fee income, we always give a range for the NIMs+Fees because ultimately it's a part and parcel of whatever fee income that we garner depends ultimately on disbursement on a specific business.

Micro-loan will give a particular range of fee, gold loan financing gives something else. So, to remain within the trajectory of 10% to 10.5% is what we have assured and we have been maintaining that. This quarter we've done 10.47%. So, some plus-minus, few basis points here and there will keep happening. We can't really monitor on exactly what will be the fee income, but broadly this range should continue.

Pranuj Shah:

Understood. Thank you. And lastly, just one clarification, like, your reported NIMs versus the calculated based on period-end averages is quite a bit of delta. So, your reported is on daily average assets, am I correct there?

Sachinn Joshi:

No, reported what we do is we do end-of-the-period averages.

Pranuj Shah:

Okay. Understood. I'm getting a bit delta, but I'll take this offline perhaps.

Sachinn Joshi:

Sure.

Pranuj Shah:

Thank you.

Moderator:

Thank you. We take the next question from the line of Avinash Singh from Emkay Global Financial Services Limited. Please go ahead.

Avinash Singh:

Yes, hi. Thanks for the opportunity. A couple of questions. The first one is more on, I mean, AI. Of course, you are kind of leading there and leveraging it. My question is more on the, you know, that medium-term impact of AI in the job markets. I mean, the hiring scenario in IT looks muted at the moment, uncertainty is there. And even if you were to look at financials, as a sector overall, the wage growth has been slowing and hiring is also relatively slowing.

Now these two sectors typically will be very, very key for your targets of the two-wheelers as well as the PL. Now if these two sectors are kind of a bit clouded here, now how do you see this risk in terms of your growth, asset quality over the medium term? Because these two are kind of a very critical to your

growth, the two-wheelers and personal loan growth are very critical to your growth trajectory and plans, but we have this big sort of uncertainty coming in.

So, I mean, on one hand, of course, AI is helping on the operation side, but this is kind of creating a cloud. So that's one. Second, again, I guess this has been discussed and answered. From this FY31, so broadly if I see, I mean, if I were to remove this drag on earnings from the security receipts and see the credit cost improvement, by and large, it looks like that, okay, in terms of even over the medium term 4-5 years, your play is like NIM plus fee changes and opex changes basically offsetting.

I mean, there is very little play from these two parts. The large play is from credit cost and some, of course, SR (Security Receipts) drag going on. So now if you were to continuously invest in technology, I mean, why it is so that even at exit, I mean, after even 4-5 years, you do not see that opex play to come into pictures? And this branch 150 each for microfinance, micro-LAP, and 400 for gold, is to be opened in how many years? And will there be some overlap in these branches? Thanks.

Sudipta Roy:

Okay, I'll take the first question. The first question is that the fact is that yes, there are a lot of headline moderation in hiring by some of the sort of the bigger Indian IT firms as reported in the media. However, one of the things we should be cognizant of is that much of that slack is also being picked up by the huge expansion of GCCs (Global Capability Centers) in India.

So, the fact is that, and we are in the hiring market almost every day, it's still as difficult to get qualified talent as it was 2 years back, right? So, maybe there might be a little bump in the freshly minted engineers getting hired into some of those, some of the big Indian IT services firms, but the hiring by the GCCs expanding is quite strong.

So according to our assessment, we really do not expect the IT staffing or hiring industry to completely fall off a cliff, at least for the next 12 to 18 months. And the fact is that because we have been very, early in adopting AI-based tools, and now we have a significant AI development team as well, our realization is that the front end of AI development is only 15%. To make AI solutions useful for use in the frontline or for use by operating managers, you require a heavy engineering wrapper around it. And that requires software engineers and developers to put it together in a usable format.

So, I do believe that, and this is obviously, this is my own personal opinion, some of the gloom and doom regarding job losses from AI like, being an unstoppable stream, has been probably a little overblown. Yes, there will be some losses because of efficiency gains, etc., but I do believe that some of those will be deployed into tools development or manufacturing of AI-enabled solutions. So overall, I do believe, that there'll be a marginal impact and not a massive impact.

But again, the caveat is that we'll have to see as it plays out. You know, my guess is as good as yours, and no one can predict with 100% certainty as to what will happen. Having said that, we are cognizant of wherever there are, like, large-scale job losses. Of late, there was a large-scale job cuts by one large global US player, right, in the IT segment. And so, our underwriting sort of paradigms as well as underwriting processes, especially in SME or personal loans, etc., remain cognizant to such risks.

And, and we incorporate such things into our decisioning process. For example, if we get advance news of a particular large heavy amount of job losses in a particular IT services company, right, or downsizing in an IT services company, automatically any application coming from that company for a personal loan or for a credit facility goes through an additional amount of security.

So, those things are built into the underwriting process. The second, as part of the second question you were asking whether, on the gold loan branches, 400 plus gold loan branches is for deployment only in this year. That means from 1st of April till 31st March of, 1st of April 26 to 31st March 2027, in between this period, we'll deploy these micro-LAP branches, and we'll deploy these 400 plus gold loan branches. So, the rate of deployment of gold loan branches will be at the rate of almost 1 to 1.2 a day.

And so that is, to answer the question. The third thing is that obviously, opex and the credit cost trajectory will evolve over the period of the Lakshya 31 framework. So, you know, currently we are at about 2.64. You can see that, our slippages have been coming down. Our slippages same quarter last year were about ₹900 Cr plus, this quarter it is ₹402 Cr.

We have given in slide 20 the impact of Cyclops on our two-wheeler portfolio where you can see our 30+ DPD portfolio at 10 months from the observation period is 2.8% where the industry average is 7.1%. So actually, our Cyclops portfolio, two-wheeler portfolio, which is like almost ₹11,000 Cr right now, is, but the observation window book, which is about ₹3,250 Cr, is outperforming the industry by almost a factor of, almost a factor of two.

So, we remain very, very confident on the trajectory of paring our credit cost during the Lakshya cycle to sub 2%. That is why we felt confident enough to put it as part of the Lakshya guidelines. And the fact is that you are right, to a certain extent, the RoA expansion will come from some part of the efficiency that is arising out of opex, as well as we will build headline efficiency in our opex plus credit cost.

As you, if you had been part of the analyst call previously, at one point in time, we used to guide saying that our opex plus credit cost will be in the corridor 6.5% to 7%. Now we have moved that to a corridor of 6% to 6.5%. And during the Lakshya period, we expect that to be in the corridor of 5.75% to 6%. So that is where we expect that to be in the corridor of. So obviously, there will be efficiencies built in the opex line, there will be efficiencies built in the credit cost line, and obviously we will try to hold our NIMs and fees in the corridor of 10% to 10.5%.

There was a question on fees. We have launched the payments business primarily because we want to diversify our fee revenues. We are cognizant of the face that our primary fee comes from insurance revenues as well as from origination fees. So, we want to diversify our fee revenue pipelines. So that is why, the payments business has been launched, or payments business is proposed to be launched.

So, we are working on diversifying our fee revenues as well. So that is why, for the near term, our guidance on NIM plus fees remain at 10% to 10.5% for the near term. So, we are very, very confident that given the fact that structurally the changes that we have done to the businesses and the way we do our businesses, right, will help us navigate the Lakshya 31 period and deliver those metrics that we have put on the paper.

Avinash Singh:

Thank you, very clear.

Moderator:

Thank you. We take the next question from the line of Chintan Shah from ICICI Securities. Please go ahead.

Chintan Shah:

Yes, thank you for the opportunity and congratulations on the quarter. So, Sir, firstly on this Lakshya 2031 RoE guidance of 16% to 18%. So, in that are we considering any benefit from the SR portfolio as in any provision reversal which you are, which we could expect from that or what is kind of the recovery rates on the SR portfolio? So, this quarter I think we have, this year we have a reduction of almost ₹1,000 Cr in the SR book. So, has that gone anything towards the provision and any add-back on the capital front? Yes, that's the first question.

Sachinn Joshi:

So, first thing is, we have not taken into account any gains coming out of SR portfolio because earlier we had guided that as and when such gains come in, we will actually utilize the, those credits to take care of the, further macro-prudential provisions to be created. And, once we have sufficient provisions created for micro-loan, we may also consider creating provisions for the unsecured portfolio overall.

So, that's a top-up which has not been factored in over here. And as far as the current credits are concerned, you would have seen that the SR portfolio used to have about 59% provision, that has now

gone up to 64%. So, till the time the ARC has more than one asset, the release of these credits to P&L is not possible.

So, whatever credits have been received have actually just gone to, create more buffer for the balance assets which are currently going in for resolution. So, we will over a period of time, there will be a redemption of SRs and at that point of time the credits will come in and we will, like we had guided earlier, will utilize the moneys towards creation of additional macro-prudential provision.

Sudipta Roy:

His question is that 3% to 3.2% ROA, does it include...?

Sudipta Roy:

No, it does not include. That does not include. Also, but one of the important points to note is that the SR portfolio still gives us a drag. Because, we have to still provide for the funding cost for the portfolios with the ARCs. So as and when the portfolios resolve, that drag resolves to a larger extent, which releases a marginal RoA into our entire earnings stream.

So, if you had to look at standalone basis, our retail portfolio is actually exhibiting RoAs at a level higher than our consolidated RoAs. So as the drag reduces, yes, there is a secular benefit that will come into the RoA profile as well. So, to that extent, yes, the resolution of the SR portfolio will aid our RoA expansion definitely.

Chintan Shah:

Sure, Sir. So, from that retail portfolio RoA, standalone RoA which you mentioned is higher than the overall, so how much would be the delta which retail portfolio RoA would be having over the consol ROA?

Sachinn Joshi:

Rather than talking about the delta on retail, I would like to just talk about what is the money that is stuck. We have ₹2,200 Cr of portfolio on the book, the loan book, the wholesale portfolio, and about ₹4,800 Cr of SR portfolio. So totally about ₹7,000 Cr, right? ₹7,000 Cr is the, is the money which will get released over a period of time and right now the ₹4,800 Cr does not give me any interest income because they are part of SR; ₹2,200 Cr must be giving me around 11% to 12% kind of yields. You can do the calculations there. This money will get released and will get redeployed in high-yielding retail business.

Chintan Shah:

Understood. And fair to expect that this will get resolved in three years' timeline atleast?

Sachinn Joshi:

Yes, three to four years. So, there may be a long tail, but yes, larger resolutions, there has been a positive movement which we are seeing. Ultimately, it's with NCLT, so it's anyone's guess, but yes, next two to three years, significant part of the assets will come up for resolution.

Sudipta Roy:

Yes, let me add to what Sachinn says, Chintan. In many of the assets, there has been significant progress over the past one year. And we are reasonably positive about the trajectory of that. But it will take another three to four years because, for one of the assets, for example, if I were to give an example, the JDA has just been signed last quarter.

Now once the JDA has been signed last quarter, the construction period is at least 2 to 2.5 years. And so, it will take about 4 to 4.5 years for the full project to get delivered. So, the delivery will come across

the next three to four years is what we look at. And so, we have a team, we have a reasonably focused team that keeps on working on this, and so far, the outcome has been positive.

Chintan Shah:

Fair enough. That is very helpful. And Sir, just one last question on the fee income part. So, I think in order to boost fee income, so are we looking at any opportunities to further expand into co-lending or are we doing any co-lending as of now? So, what are the thoughts on that?

Sudipta Roy:

See, co-lending we do on the personal loan side, but on a very selective basis with only a couple of partners. Co-lending always remains on the plan for us, on the table for us. There can be opportunities in home loans to do co-lending, there can be opportunities, personal loans obviously the opportunity arises, in SME there can be an opportunity to do co-lending, on a product like warehouse receipt finance, there can be opportunity to do co-lending.

So, the only thing about this is that co-lending frameworks are slightly complex to implement as well as it requires a little bit of tech integration as well as monitoring. See, we are not starved of capital. Right? So, we will do co-lending wherever we get access to newer customer pools, right? And the partner also wants the say in the control of the customer experience process. Right?

So, there are various considerations that go into co-lending or the partner does not have enough capital to deploy to do a certain amount of product to its customer base. So, there are horses for courses. Yes, we remain open to doing co-lending frameworks, but obviously at terms which, we think are favorable to our business philosophy.

Chintan Shah:

Sure. That's it from my side. I'll come back in the queue. Thank you.

Sudipta Roy:

Thank you.

Moderator:

Thank you. We take the next question from the line of Anuj Singla from JP Morgan. Please go ahead.

Anuj Singla:

Yes, good afternoon, sir. Sir, my question is on the ECL refresh. While you have elaborated quite a bit on that, on the Stage 3 PCR cut, is there a change in LGD or PD assumptions there?

Sachinn Joshi:

See, the PD LGD, there are two ways, within the industry there are certain players who have PDs which, which keep increasing, which have an increasing trend as they move stages, and there are some players who also have the LGD moving, showing an increasing trend. There are other players in the industry who have a moving PD but the LGD is static, which means that LGD is decided at a portfolio level and accordingly the overall LGD is applied to every asset right from -- so it's fixed for all the three stages.

So, when we've done this exercise over last two years, we have actually been recalibrating the, Stage 1, 2, and 3 PD LGDs. This quarter -- this year for the, based on the impacts of FY26, we have revisited this and accordingly the Stage 1, if you look at what has actually happened is that the overlays which were kept in Stage 3, which were over and above whatever was requirement as per ECL model, with

the difference of PCR between 74% and 68%, that differential was nothing but the management overlays, they have got released as part of this whole exercise and 96% of the portfolio which is in Stage 1, there we have actually enhanced the overall PCR from 0.52% to 0.80%.

So right on day 1 as the loan gets sanctioned and disbursed, 80 basis points is set aside. In if you -- if you are aware in the RBI prudential norms, this used to be a minimum requirement of 40 bps. It's actually double that number. And the LGD across the stages has been fixed. That, that's the reason why you see that right from the Stage 1 carries 80 basis points, Stage 2 also there is a small increase which has happened from about 2.23% to 2.47%, and Stage 3 there has been a release. So, this release of provisions out of Stage 3 does not in any way bring down the provision coverage in terms of what is required for that portfolio. I hope I have, I'm clear on that.

Anuj Singla:

So, my question is if there is an LGD or PD change for Stage 1, so let's say for the incremental portfolio build-up in FY27, do will you be providing at 80 basis points incrementally as well or it will be 50? So, you've created a buffer between this 30 basis points of incremental buffer, but that's a one-time buffer, or have you changed the assumptions that every incremental asset build-up will now need to be provided at 80 basis points as well?

Sachinn Joshi:

It will be 80.

Anuj Singla:

There is a change in, there is a permanent change in assumption then

Sachinn Joshi:

Also, there are still certain overlays continuing in Stage 3. So, we have not fully exhausted the overlays which are part of Stage 3. Okay? Number two, if you have seen that last 4 to 5 quarters, the whole rural business loans business has gone through a crisis. Okay? So just simple arithmetic, if you exclude one good year and you add one difficult year to the overall ECL model, you will find that the PD LGDs will increase. Okay? Now the actual behavior of our portfolio if you see has only been improving. We have actually gone back to the pre-crisis levels, our collection efficiencies are back to 99.80%. Which means the actual requirement as part of the credit cost, will come down significantly whereas the ECL model requirements will continue for some time, yes, just as a pure arithmetic.

So, that also is one of the factors which leads to this increment. In a way, it actually creates, if my asset book is going to be improving with every quarter, this will actually create only cushion in the system. And that's what we ultimately intend to. We used to hold ₹975 Cr of macro-prudential provision at one point of time, and in a way by, the acceleration of Stage 1 provision, it only helps us create that cushion at the early stages of life.

So, the standard asset, gets a higher coverage. By the time some roll-forwards happen, we have also shared how the roll-forwards have been slowing down, & that actually shows very clearly that the overall portfolio across all businesses is only improving & the overall requirement for provisions will go down in reality, but when we look at the provisions to be created, it is purely dependent on the ECL model.

The Cyclops impact, partial impact through the segmentation and all has been already considered. As we move into the next financial year, you will see the further impacts coming in and which will help us improvise on the overall credit cost. And that's why we are pretty, you know, bullish on how we will end this financial year FY27, and you know we've taken a, aggressive target I would say in terms of bringing down the credit cost to a range of 2% to 2.2%.

Anuj Singla:

Okay. So just to clarify, this does not, the change in this quarter does not have an impact on the next quarter, next year credit cost outlook? Because mathematically it should. I just want to clarify if the Stage 1 you are now factoring at 80 basis points versus 50 basis points till 3Q, now we have increased the positioning on Stage 1 build-up, which incrementally will be adding in FY27. Does it change in any way the outlook of credit cost for FY27?

Sachinn Joshi:

No. See, the reason for that is the, actual roll-forwards if they slow down, the hit to P&L is expected to come down significantly. So, the provisions requirement, you know, based on the book increase will go up, but more than compensated by the reduction in the roll-forwards.

Anuj Singla:

Got it, got it. Pretty clear. Thank you. Thanks a lot.

Moderator:

Thank you. We take the next question from the line of Abhijit Tibrewal from Motilal Oswal Financial Services Limited. Please go ahead.

Abhijit Tibrewal:

Yes, thank you for taking my question. Good afternoon, Sir. Sachinn Sir, just to clarify what you just answered that we now plan to keep Stage 1 provision cover at 80 basis points. I was under the impression that this quarter because we have had a release from Stage 3, rather than taking the benefit of that in the P&L, we chose to be prudent and we parked it in Stage 1.

But if we start providing on Stage 1 at 80 basis points, it essentially means that our PD and LGD assumptions are now telling us to provide on Stage 1 at 80 bps. So, which is not just a ECL model refresh, in other words, partly whatever release we had from Stage 3 in Stage 1. This is our ECL model now telling us that provision on Stage 1 is required at 80 basis points. Is that understanding, correct?

Sachinn Joshi:

No. So Abhijit, the way it works is that the, if the LGDs, like I was mentioning earlier, either you have an increasing trend in the loss given default the way you have it for PDs, then you will have a lower provision created for Stage 1, slightly higher in Stage 2 & then finally higher in, much higher in Stage 3.

The way the model was worked out was Stage 3 actually, the ECL model used to give a particular result and the incremental provisions, if you look at our PCRs historically also, you would see that our PCRs for Stage 3 assets have been always on the higher side. We have been in that 70% to 75% range when other, the peer group you will see that similar businesses, the PCRs have been kept in the range of 50% - 55% for some time, and, you know, they have now been increased to 60% - 65%. So, 68% PCR, like I was mentioning, also includes some parts of the overlays.

So, we believe 60% to 65% is a reasonable requirement which comes in and which with Cyclops implementation, and, you know, we have also shared some early results on that, the expectation is that the ECL models will naturally be recalibrating once again in September and next March. And we will, we will be revisiting this because, see, I don't think anyone else in the industry is currently working on the credit cost piece through implementation of a tool like Cyclops, which has started giving early results.

We are, we will possibly see the full-fledged results in FY28 because the full book would have moved into through the Cyclops underwriting. So, there are early, you know, results which have come in, which

very clearly showcase, Sudipta earlier explained on one of the questions how the two-wheeler piece has been working out.

Similar thing we have been noticing on farm as well as personal loan, but the full effect of it naturally will happen only after the book gets, the new book gets seasoned. And the ECL model refresh we do once in four quarters. As we revisit the ECL model next time, you will naturally see that there is an improvement in that and for next four quarters is what, you know, we will continue with this 80-basis point.

If there is a need in September, we will see because it's up to us. If the results are really good and we can recalibrate the models in September, end of September, we will do that. I hope I have clarified.

Abhijit Tibrewal:

Just, Sir. Yes, Sir, that clarifies. So, basically speaking, till the time we do our next model refresh, it could happen in September or March, we'll continue with Stage 1 at 80 basis points. And, maybe potentially in September or March, Stage 3, depending on how we see Cyclops benefiting the asset quality, the Stage 3 PCR could further come down to 60% - 65% because like you mentioned, you're still carrying some overlays in Stage 3. So, there is a possibility that.

Sachinn Joshi:

No, Abhijit, one second. The last part, if you have noticed over almost two to three years, we have been carrying PCR in the range of 70% to 75%. So, the recalibration exercise once it has been done, it, it was right now just, you know, significant part of Stage 1 provisions moving to Stage, sorry, Stage 3 provisions moving to Stage 1.

But this whole exercise now is not going to have such significant impacts. And if, like on one side I am talking about creating additional macro-prudential provisions, so the intent is not to really bring it down further from here. We will be in the, in this range only. The PCRs will, will be kept in the same range.

Abhijit Tibrewal:

Got it, Sachinn Sir. That is useful. And then I had one last question for Sudipta Sir. Hi Sir, good afternoon. Sir, just one thing, these Lakshya goals are very, very aspirational, it's very heartening to see that we are at least aspiring to get to credit costs which are less than 2%. Will a change in the product mix have a bigger role to play in bringing down credit costs to below 2%? Because the way we are thinking about it is by the exit quarter FY27, we were thinking of, of taking down credit costs to 2% to 2.2%. Which essentially means that this less than 2% credit cost that we are thinking about as part of Lakshya 2031 is not very far away. It could come in FY28 or by FY28 end.

So just trying to understand, will it be more a function of the product mix changing or, or like Sachinn sir was mentioning, the full impact of Cyclops will start showing up from FY28 onwards? Will that play a major role, or will product mix play a bigger role in getting us to less than 2% credit cost?

Because the way the mix is today, some of these products, tractors, two-wheelers, PL, including MSME, these are inherently, if I look at the industry, higher credit cost segments. So, if you could just help us understand this bit. Thank you so much.

Sudipta Roy:

Yes, so, see, one of the things which is there is that the impact on credit cost will be primarily driven by customer selection through Cyclops. So, and as you, because the way we have implemented Cyclops is that we have implemented Cyclops in the credit-aggressive segments earlier. So, you know, two-wheeler followed by, you know, tractor followed by SME.

So, as you rightly said, you know, these are the, what I call the aggressive credit products, and so obviously we wanted to implement Cyclops first on this just to make sure that we are very, very certain about the credit cost trajectory of this business going forward. And the early indicators, we have given the 30+ numbers out, we see the 90+ numbers on Nostradamus, they are very, very encouraging, which

gives us the confidence that, you know, if you see a prime throughput on our two-wheeler business, prime throughput on our two-wheeler business while we have two-wheeler business monthly originations have grown from ₹650 Cr to almost ₹1,000 Cr, my prime contribution has gone up from about 65% to almost 90%. Right?

So, I am able to pull at that scale also. So, we are reasonably confident about the credit cost trajectory, which will be primarily Cyclops-driven customer selection. So, so in a way you are right, you know, some of this might happen, you know, the, if everything goes well. See the caveat is everything, you know, sometimes, you know, we, hope for the best, but sometimes, you know, there is a spanner in the works.

The Karnataka microfinance industry ordinance issue came out of the blue, right, in the month of February last year, and it was nowhere factored into any of our plans, right, which delayed the recovery of the entire microfinance industry by almost six months. Right?

So, ceteris paribus, things remaining normal, which is a tough ask these days, right, so, you know, we are reasonably confident that, you know even within those see-saws etc in terms of environment, we are reasonably confident of reaching that less than 2% trajectory by FY28 as rightly pointed by you.

Now which quarter that might happen is something that I can't point out. Right? But sometime during FY28, we should be in touching distance of that 2% or below credit cost trajectory. Right? After that, you know, it's a question of maintenance and see how far we can optimize it even further.

So that is why we have stuck out our neck and said that it should be less than 2%. Right? So that is what we have stuck our neck, how much less than 2% is a matter of execution and full maturation of our Cyclops portfolio, but a mix of economy, geopolitical factors, etc., everything thrown in. Right? But we are reasonably confident of getting to that 2% or below trajectory by somewhere in FY28.

Abhijit Tibrewal:

Got it, sir. This is very useful. Thank you so much and I wish you and your team the very best.

Sudipta Roy:

Thanks.

Moderator:

Thank you. We take the next question from the line of Deep Vakil from Bandhan AMC. Please go ahead.

Deep Vakil:

Hello, good afternoon, sir. Am I audible?

Sudipta Roy:

Yes, good afternoon, yes.

Deep Vakil:

Sir, one quick thing. I think the main, I mean, most of that I could understand is the new branches. So does this have something.,,,,,(inaudible)

Moderator:

Deep, I'm sorry to interrupt you there, but there seems to be some background noise coming in.

Deep Vakil:

Yes, just, is it better now? Hello?

Sudipta Roy:

No, there seems to be some ring, phone ring at the background.

Deep Vakil:

Hello, hello, hello.

Sudipta Roy:

Deep, I think you will have to call back again. There is a….

Deep Vakil:

Yes, okay. Sure.

Moderator:

Thank you. We take the next question from the line of Hardik Shah from MLP. Please go ahead.

Hardik Shah:

Thank you for the opportunity. Congratulations, Sudipta, on good set of numbers. My only question is on the credit cost assumption. So, what are we assuming in terms of through-the-cycle credit cost for two-wheeler and personal loans for us to go from 2.6% to less than 2% from a structural standpoint?

Sudipta Roy:

See, we don't give business-wise credit cost estimates, we don't give out because, you know, this is like too dependent on market conditions, etc. So, what we have given out is the 30+ number as part of our Cyclops ₹3,250 Cr book. So, you might want to calculate it from there. 30+ number on 10-month observation window is about 2.8%.

So, you know, there's an assumption of a 90+ from there and there's an assumption of a loss given default from 90+. Right? So, basis this chart on that ₹3,250 Cr portfolio, you know, probably at this point in time, caveat - this is not a fully mature portfolio yet, it has to go through 24 months for it to fully mature, you know, it has gone through only 10 months by now, right?

At full-scale cost, you are probably looking at a, in this portfolio, you are probably looking in the two-wheeler portfolio, you are probably looking at a sub 2% credit cost. But again, these are not matured portfolios.

So, you know, we obviously there are certain businesses which are lower credit cost businesses like mortgage, etc, gold loans, there are certain businesses with slightly higher credit cost business like, you know, MFI as well as two-wheeler.

Overall, at a balance sheet level, we still, we still sign up to that 2% to 2.2% corridor by Q4FY27 and over the Lakshya period, sub 2% is what we are signing up on. But having said that, the initial trends on the Cyclops portfolios, especially in SME, tractor, and two-wheeler, are very, encouraging, which gives us the confidence to stick out our neck and give that commitment.

Hardik Shah:

Got it. And how about personal loans, given that our incremental share is increasing from the partnership loans?

Sudipta Roy:

Yes, so see, the personal loans industry loss rate, especially for players, you know, especially for players who have a large amount of salaried customers in their portfolio, will range in the corridor between 2% to 3%. Right?

Hardik Shah:

Understood.

Sudipta Roy:

So, our, our objective will be to land in that corridor as well.

Hardik Shah:

Got it. Okay, perfect. Thank you. That's all.

Moderator:

Thank you. We take the next question from the line of Abhishek Murarka from HSBC. Please go ahead.

Abhishek Murarka:

Yes, hi Sudipta, Sachinn and team. Congratulations for the quarter. So, can you give a sense of at least your key segments like farm equipment, two-wheeler, microfinance, consumer, is the disbursement yield higher than the portfolio yield at this point of time?

Sudipta Roy:

Thanks, Abhishek. Microfinance, all of you guys know that the disbursement yield is more than the portfolio yield.

Abhishek Murarka:

Not microfinance, but the other stuff.

Sudipta Roy:

Other stuff, see, I'll tell you, other stuff, you know, personal loans, we continue to have -- see, Abhishek, we don't give individual business-wise yields. But however, I will give you some pointers, right? Personal loans, we are higher than industry salaried average by almost 2% to 2.5% percentage points.

Primarily because of the online origination, we are able to get a little bit higher yield. This I've maintained earlier and I stand by it. Two-wheeler, you know, the industry operates between 16% to 18% overall yield levels.

So, you know, we are still at that level and, you know, and we are able to maintain these levels. In one dealership with a very large prime, you know, very high-ticket bikes, you know, it might be slightly lower, you know, one dealership with a slightly lower-ticket bikes, it'll be slightly, slightly higher. SME also continues to be.

Abhishek Murarka:

Yes, sorry. Sudipta, just broadly would it be higher than your portfolio yield even if it is not, I mean, I just wanted to get that range even if you don't give a number. Is it higher or lower at this point of time?

Sachinn Joshi:

Yes, it is higher.

Abhishek Murarka:

We're just trying to see where your, if there is any portfolio where there can be an yield improvement as you build the book. So that is what I'm trying to?

Sudipta Roy:

I'll tell you, the yield improvement we are always continuously trying yield improvement in personal loans. We are trying home loans we got hammered quite a bit last year. Home loans, the, you know, we have moved quite a bit to loan against property.

So, if you look at our sort of mix of home loans to LAP, we were about 80/20 about, you know, 12 to 18 months back. Right now, we are about 60/40, maybe 55/45. Right? 55/45, 55% home loans, 45% LAP. So, we are trying to push yields up, right? Micro-LAP is a business where we have reasonably high yield.

And micro-LAP, you know, book size has crossed ₹1,000 Cr as you have, we have disclosed for the first time this time, right? And we are setting up almost 200 micro-LAP branches this year. So, we are focusing on micro-LAP, and in micro-LAP our collection efficiency continues to hold at, you know, 99.9%. Right? So that portfolio is doing very well.

Even in tractors, right, we're trying to push our yields upwards in, in two-wheeler we have been able to improve our yields slightly upwards over the last quarter. Right? So overall the push is on improvement of yields across.

Abhishek Murarka:

Okay, because I think using Cyclops and all your, you know, customer selection tools, you're getting into better quality customers even within those portfolios. So then to push up your yields, how do you do that? Is it. I mean, I'm just trying to connect the dots there?

Sachinn Joshi:

Yes, yes. So, Abhishek, basically the only way you can do that is by changing the mix in the right manner, right? And that is the reason why gold loans was introduced. Gold loan we expect. so, if we look at how, how will we fare in terms of our book mix say by FY31, our micro-loan, you know. The whole rural business finance piece will be somewhere in the range of about 20%. 15% of the total mix will be for businesses like personal loans, gold loans, which is a very small piece, right, today. And you will have farm and two-wheeler somewhere in that 10% to 12% kind of range. Then you will have, you know, what is left, SME is again going to be about 10% odd. So, the mix itself is going to really do the work and it's already doing.

To your question on whether the disbursement yields are higher, it is yes, it is higher because of the change in mix which is happening. And as the higher-yielding book starts growing, proportionately the overall yields will start moving up.

And that's where you see that our ability to manage the overall NIM plus fee within the 10% to 10.5% corridor is not just a function of lowering of weighted average cost, but also managing to stabilize the yields through acceleration of higher-yielding businesses. So, we had challenge in four to five quarters when the rural business finance had to be slowed down.

But with that coming into play and gold loans getting accelerated, micro-LAP will get a big push, personal loans you have already seen 98% growth you saw. So, these are all pieces which are naturally higher. Mortgages will grow, perhaps we saw 20% growth over there and that was one piece which used to actually -- we had to do it because it was secured.

But the yields over there, especially now in the reducing interest rate cycle, the yields come under pressure. That also will once the interest rate cycle changes, there will be an advantage on mortgages also. And we are also talking about getting into economical housing. So, all in all there is always an attempt to ensure that we have the right kind of mix for book growth.

So as to ensure that the overall yields don't really -- get come under pressure that we forced to again look at sub-prime kind of customers. It's very clear that we've changed that trajectory and we will continue to be in the prime space and ensure that the collections cost as well as credit costs don't go back to the older levels.

Abhishek Murarka:

Got it. And just this slippage number that you've disclosed, ₹400 Cr for the quarter, how much of it would be MFI right now?

Sachinn Joshi:

We don't give a break-up, but I mean it has been coming down significantly. I mean, you can actually look at -- we had Jan and Feb 99.7%, 99.75% and 99.8% is in March. So, the corresponding number I think December was 99.6%. So, the roll-forwards are the differential of about 40 bps, 45 bps.

Abhishek Murarka:

Right. So, because I was just thinking that at ₹400 Cr for the quarter, the annualized number works out to approximately 1.6%. Looks like a very good number and probably with the kind of book mix you have and looking forward with Cyclops implementation catching up in more a larger part of the book, would this 1.6% come down or is it like cyclically a very low number, very strong number already?

Sachinn Joshi:

No. So Abhishek, one thing which you should keep in mind is that there has been also a big thrust, there is a project on the collections piece as well. And there is every Chief Executive is currently pushing for recoveries of whatever moneys were provided for. So, we may write off in the books, it's a technical write-off.

But every Chief Executive is painstakingly trying to get every rupee back. So, the collections of the older receivables are also part and parcel of the final roll-forwards, right? Because they get netted off against the moneys that we have to finally provide for. So, there are targets taken by every business and we have been very successful in terms of doing the collections as well.

Sudipta Roy:

Yes, having said that, yes, the trajectory is very encouraging for us and let's see how FY27 pans out. We remain -- see the customer selection for the last 24 months has been of a order of magnitude better quality. And that is what is flowing in terms of the credit numbers. And the fact is that we are not even diluting the customer quality that we have been acquiring over the last 24 months even a wee bit.

In fact, we are trying to see if there is an opportunity to optimize it even further while doing volumes and the tools that we have, Nostradamus for example now on two-wheeler helps us to pinpoint one dealership in a district which is going bad. It is so precise. And so, it helps us to attack it much faster and address it much faster before it even becomes a problem. So, in a way, things are moving in the right direction. The geopolitical headwinds is a fly in the ointment. So, we are being cautious. Let's see where it takes us in FY27.

Abhishek Murarka:

Sure. Thanks for answering my question, Sudipta and Sachinn. Thank you and all the best.

Sudipta Roy:

Thank you.

Moderator:

Thank you. We take the next question from the line of Suraj Das from Sundaram Mutual Fund. Please go ahead.

Suraj Das:

Yes, hi Sir, thanks. Most of my questions have already been addressed, but a couple of follow-ups. You mentioned that your LGD assumptions are consistent across all stages. Did I hear that correctly?

Sachinn Joshi:

Yes, that's right.

Suraj Das:

Okay, sure. Can you share the LGD assumption for Stage 3?

Sachinn Joshi:

No, we can't -- we don't share all those details.

Sudipta Roy:

See, ECL models are proprietary to every organization, so we just can't divulge those details.

Suraj Das:

Sure. So just directionally, if I look at your Stage 2 and Stage 3 PCR over the last 2 years, 3 years, that number is coming down very significantly. I think Stage 3 PCR has come down to 67%, 68% and you are saying that you also have some additional buffer there over and above what is required.

So, does it mean that your LGD number is also coming down because of maybe Project Cyclops and so and so forth, whatever you are doing? But your LGD number is also coming down, so you are recovering much higher now versus what you used to recover 2 years, 3 years back. Would that be a fair assumption because that's how the ECL model will work, right?

Sachinn Joshi:

So Suraj, I think what you should do is you should also look at making peer group comparison as to what is the actual loss given default business by business that is required, which will itself enable you in concluding that the PCRs that we have been holding for so long have always been higher.

In fact, when we kept it at those 70% to 75% levels, there have been conversations which I have personally had where people used to question that are we expecting some challenges because of which we are keeping the PCR very high. And my response to that used to be that we always have been conservative.

We would set aside in bad times so that whenever there are any, in good times so that whenever there are any challenges in bad times, it comes in handy. And the microfinance crisis is a very good example of how setting aside the provisions, macro-prudential provisions helped us in difficult times.

Same thing comes in as far as the Stage 3 provisions are concerned, which is the PCR which everyone usually looks at. So, across the industry the actual, the money which is required as per the ECL model is in that range of about 60% to 65% and hence the incremental is nothing but the overlay.

But as we move forward, all these assumptions also keep changing depending on the quality of book that you are building. So, our expectation is that the Cyclops underwritten portfolio will actually only keep improving the portfolio quality and hence the Stage 3 percentages have to come down.

And once the roll-forwards slow down, even the Stage 1, Stage 2 requirements will come down. There are -- if you look at, there are players in the market who have a very secured book and who are very comfortable with, say, 40% PCR. So, it all depends on the kind of mix and how you have created a track record for yourself.

We are right now in the process of creating that track record and hence plus the change in the assumption. So, we are at a juncture where there are certain segments of portfolio we have, which have already moved to Cyclops and created through that underwriting, there are older portfolios and then there is a portfolio which has recently come out of a crisis.

So, it's a -- because it's a mix of all these, this is just the result that you are looking at. Simultaneously, we have been focusing on collections like I mentioned earlier. So ultimately ECL model you're right, it's a function of what you lend and how much you end up spending to recover it, which comes in the form of collection cost.

And if the roll-forwards slow down, that collection cost goes down and even the credit cost improves. So directionally that's why we believe that if you just compare last four to five quarters, you will see that the credit cost has started coming down directionally and this quarter again about 10 basis points lower compared to the previous quarter.

And we believe that we have a journey to complete. We are at 2.64%, we have to go to a range of 2% to 2.2% by end of FY27. And I think we are fairly comfortable at this point of time based on the book that we have and the slippages that we are actually being able to factor in for the next four to six quarters.

Suraj Das:

Sure. Thank you, Sachinn Sir. Yes, that's all from my side.

Sachinn Joshi:

Thank you.

Moderator:

Thank you. 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. I thank all of you for a patient hearing and participating in our quarterly results call. I trust we have been able to address all your queries. As always, please do reach out to our Investor Relations team in case any of your questions has been left unanswered. We'll be happy to discuss the same with you. Thank you again and wish all of you a good financial year FY27.

Moderator:

Thank you. On behalf of L&T Finance Limited, that concludes this conference call. 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