L&T Finance

Operator: Ladies and gentlemen, good day and welcome to L&T Finance Limited Q1 FY27 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 conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded. We have with us today Mr. Sudipta Roy, Managing Director and CEO, Mr. Sachin Joshi, CFO, Mr. Raju Dorti, 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Before we proceed, as a standard disclaimer, no unpublished price sensitive information will be shared during the call.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 discussion during the interaction in the call. While all efforts will be made to ensure that no unpublished price sensitive information will be shared, in case of any inadvertent disclosure, the same would in any case form part of the recording of the call.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 Q1 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.

Management: Thank you. A very good morning everyone and thank you for joining us today for the Q1 FY27 investor call of L&T Finance Limited. Joining me on the call today are our Chief Financial Officer, Mr. Sachin Joshi, our Chief Operating Officer, Mr. Raju Dorti, along with other members of the senior management team of L&T Finance. Similar to our previous earnings calls, today's discussion will be divided into two sections. I will begin by sharing my thoughts on the macroeconomic environment, our business performance during the quarter, and the strategic priorities under Lakhya 2031. This will be followed by our CFO, Mr. Sachin Joshi, who will take you through the detailed financial performance for the quarter. Post our commentary, we will be happy to take questions on the call.

Before we delve into the highlights of the quarter, I would like to give you some flavor of the current macroeconomic scenario and sectoral outlook, which becomes important given the volatility in the geopolitical arena and the impending worries of an uneven monsoon coupled with the impact of El Nino. Over the past few months, the global economy has had to navigate geopolitical uncertainties, consistent fluctuations in energy prices, disruption to supply chains, and changing trade dynamics between major economies. While these developments have introduced a period of volatility, India's macroeconomic fundamentals have continued to demonstrate resilience. The economy has performed better than expected throughout the year while posting a growth of 7.8% in the fourth quarter of FY26, supported by healthy government capital expenditure, improved infrastructure creation, and resilient private consumption driven by a recovery in rural demand. On the demand side, private consumption aided by discretionary spending has remained resilient so far, supported by both rural and urban demand. Structural reforms, favorable financial conditions, and the government's thrust on infrastructure spending have aided investment activity and bode well for sustained strength in demand conditions.

The market is exhibiting strong credit growth momentum as some sectors like microfinance have emerged from a prolonged period of contraction and most other sectors see a healthy uptick of consumer demand. Strong growth impulses are reflected in credit momentum as well, which has picked up in recent months. Tailwinds from regulatory and government measures introduced in FY26 are expected to support credit demand going forward. On the rural front, the progress of the southwest monsoon has remained an area of close attention for the entire financial services industry. While the season began with some regional variability and intermittent rainfall patterns, we are encouraged by the gradual improvement in monsoon activity over the past few weeks with 70% of the country reporting normal or higher rainfall in July. Rainfall in the first week of July 2026 was 48% above the normal level and the cumulative monsoon deficit until July 10, 2026, had reduced to 14% below the long-period average. Mandi arrivals of rabi crops are running 8% higher and government procurement for kharif crops has seen a massive surge.

I would like to call out the market concern we have seen regarding the onset of El Nino and its projected impact on the monsoon. The L&T Finance team has extensively traveled in rural geographies in our core markets over the last few weeks and we see normal economic momentum. While the onset of the monsoon was slightly delayed, economic and agricultural activity remains strong and current reservoir levels are sufficient to sustain normal agricultural output and hence protect rural cash flows. We remain hopeful that rainfall will continue to catch up during the balance of the season, supporting agricultural output, rural cash flows, and overall consumption. Encouragingly, rural demand indicators continue to remain resilient, aided by healthy government spending, continued infrastructure investments, and a sustained focus on the rural economy. We are confident that resilient domestic demand and coordinated policy support will provide the wherewithal to withstand the adverse impact of such uncertainties.

Coming to this quarter's highlights, I am pleased to share that L&T Finance has delivered another strong quarter of profitable and quality-led growth. During Q1 FY27, we recorded our highest ever quarterly consolidated profit after tax of 902 crores, representing a growth of 29% year-on-year. Our consolidated book crossed another important milestone, reaching 1,29,634 crores, reflecting a healthy year-on-year growth of 27%, with an ROA of 2.48%, reflecting a growth of 11 basis points year-on-year. This has been achieved on the back of robust quarterly retail disbursements of 23,852 crores, up 36% year-on-year, with contributions from all our lines of business, demonstrating the continued strength of our diversified retail franchise. The significant thrust in our disbursement momentum year-on-year has been a result of a continuous focus on building granular distribution channels, our ever-expanding branch footprint, expansion of our digital acquisition capabilities, duly supported by our AI-powered next-gen credit administration framework Project Cyclops, and our continuous focus on strengthening risk guardrails, allowing us greater confidence in quality underwriting.

In the last call, I had emphasized our trajectory of pairing credit costs on account of the implementation of structural credit policy measures in our businesses and the realization of positive dividends from the early implementation of Cyclops in the two-wheeler, SME, and farm businesses. I am pleased to inform you that consequently, credit costs moderated to 2.54%, reflecting another quarter of sequential improvement of 10 basis points, supported by our continuous focus on strengthening credit administration, collections excellence, and AI-led portfolio management. A strong growth of 29% year-on-year in total income with a PPOP growth of 35% year-on-year was largely driven by a sharp focus on managing yields across businesses, fee improvement, and efficient liability management. Stable NIM plus fees at 10.47% despite a competitive operating environment further demonstrate the resilience of our business model. This has resulted in our ROA improvement to 2.48% while ROE increased to 12.71%.

While these numbers are robust, I would like to emphasize that we could have grown even faster. However, given the volatility in the economy, we chose prudence over aggressive expansion, maintaining our emphasis on responsible growth, disciplined underwriting, and superior portfolio quality. We proactively tightened our credit guardrails during the quarter, deliberately letting go of about 1,000 to 1,200 crores in potential disbursements, foregoing a few percentage points of additional growth to firmly protect our asset quality. It is important to note that through our Lakhya 2031, our asset growth target is 20% plus CAGR over the 5-year period. Whenever the market and credit conditions are conducive, we would use that opportunity to grow our asset book in a risk-calibrated way at a faster pace than Lakhya goals, as has been the case during this quarter. However, we will never compromise risk for growth, as articulated in our risk-first, tech-first approach.

I would now like to share an update on our Lakhya 2031 goals, which marks our pivotal leap from transformation to delivery. As many of you would recall, during our last earnings call, we formally launched Lakhya 2031, our 5-year strategic roadmap that marks our transition from institutional transformation towards sustained delivery. I am pleased to state that we have begun this journey on a strong footing. While our profitability metrics continue to improve quarter after quarter, our immediate focus remains on maintaining consistency in execution. We recognize that Lakhya 2031 is a 5-year journey, and therefore our endeavor remains focusing on delivering sustainable growth while steadily improving credit costs, profitability, and returns over the course of this strategic plan. We have set ourselves a book growth target of a CAGR of 20% plus over the Lakhya period. As explained above, I am pleased to report that we are tracking well in line with this target, achieving a robust 27% growth in Q1 FY27.

This was supported by strong disbursement momentum across all our lines of business, including secured as well as unsecured products, with 126% year-on-year growth in personal loans, a 41% year-on-year Cyclops-powered growth in the two-wheeler finance segment, a 24% year-on-year growth in rural business finance, a 22% year-on-year growth in housing loans, a 23% year-on-year growth in SME finance disbursement, and 11% year-on-year growth in farm finance disbursement. Notably, one of the most important developments during the quarter has been the continued collection efficiency normalization of our rural business finance portfolio to pre-crisis levels, which has given us the confidence to resume the growth trajectory of the business, albeit within the MFIN guardrails and our proprietary risk administration frameworks. We have started the work of implementing Cyclops in our Rural Business Finance (RBF) book vertical, and it is expected to be completed before the conclusion of FY27. Across our urban business lines, we continue to maintain our sharp focus on sourcing undiscovered prime, prime, and prime-plus customers who exhibit strong credit resilience. This disciplined approach has led to our prime customer share in our two-wheeler finance disbursement steadily increasing to 90% for Q1 FY27. Our journey towards building a prime-dominant urban portfolio that showcases true resilience across business cycles continues unabated, firmly underpinned by our robust credit and risk administration frameworks.

Secondly, on the credit cost front, we will endeavor to drive credit costs down to a level of 2% or less during the Lakhya period. Over the last few quarters, considerable effort has gone into strengthening our underwriting framework, collections infrastructure, and portfolio monitoring capabilities. The continued moderation in credit costs and improving asset quality during the quarter provide us confidence that the structural interventions are delivering the intended outcomes. Additionally, we have commenced participation in the central government's credit guarantee schemes, namely CGFMU and CGTMSE, to create an incremental safety net for select cohorts of our rural business finance and SME portfolios and shield the balance sheet from cyclical volatility. We believe that there is still significant headroom for further improvement. As our newer portfolios continue to season and our proprietary AI-led underwriting and portfolio intelligence engine mature further, we expect our asset quality to strengthen progressively over the coming quarters. This remains one of the most important levers for improving our profitability metrics under Lakhya 2031. Our return on assets target remains in the range of 3% to 3.2% for FY31. Against that, we recorded an ROA of 2.48% in Q1 FY27 versus 2.37% in the corresponding quarter in FY26, which is up 11 basis points year-on-year. We remain committed to working on achieving the 2.8% ROA threshold in Q4 FY27, as communicated earlier. Against a Lakhya 2031 ROE target of delivering a return on equity in the range of 16% to 18% by FY31, ROE increased to 12.71% in Q1 FY27 from 10.86% in Q1 FY26.

As we look ahead, we have identified three key strategic objectives for FY27: driving cross-sell and up-sell, productivity enhancement, and digital leadership. We are executing on all fronts. One obviously very important lever is the cross-sell engine, primarily because the acquisition costs of selling products or deepening relationships with existing customers is approximately one-fourth or one-fifth of acquiring a new customer. So, in terms of acquisition costs, it is value accretive. From a risk perspective, selling to a known, credit-seasoned customer is also value accretive because it helps us predict credit cost outcomes with a far greater degree of certainty than getting a new customer off the street.

Secondly, regarding Opex, it is not limited to the cost of credit or credit administration. Many of the agentic frameworks contribute. For example, consider our underwriting co-pilot or the legal co-pilot like Shigram. The average time to interpret property titles in a micro-LAP business used to take anywhere from 4 to 8 hours. Now with Shigram, that is down to 30 minutes to an hour. Many of our tools function similarly. Our mortgage co-pilot enables our sales team to answer queries using their own prompt generation on the tool rather than trying to call back someone in the call center. In our collections businesses, our self-cure rates driven by bots are now as high as 40%. Especially in the two-wheeler business, our self-cure rate has gone up from 10% to 40%. We are not using any human beings to make these calls; we are only using machines.

Overall, we expect that some of this technology deployment will reduce the need for headcount. While the need for headcount to finally perform the sale on the ground will remain, especially in the high touch-and-feel rural businesses, I do believe that a large proportion of our urban businesses will see efficiencies in headcount as well. Over a period of time, I see a normalization in headcount costs. It will not be very sharp in the next two to three quarters, but as we move into FY29 and FY30, the impact of all these implementations will be visible in our headcount metrics.

Our move toward building our own private cloud is a significant step. We have been trying to push the AI envelope much earlier than many other organizations. The issues regarding cost that come with large-scale AI usage are very real. Because we understood this is something we need to address at the beginning stage, otherwise it might end up undoing the benefits from an Opex standpoint, we are building our own private cloud. We probably cannot run Tier 1 applications on private cloud yet, but we can likely run our Tier 2 and Tier 3 applications there. This has to go through reliability testing and operational effectiveness before we can declare it a full success. Overall, we are trying multiple things on multiple fronts. We are not leaving any stone unturned. Perhaps 80% will be a success and 20% might not be, but we are very confident that if 80% succeed, the trajectory of ROE improvement we have committed is more likely to happen over the Lakhya 2031 timeframe.

In terms of the payments business, I understand that if you try to build it as a solo business, it might not always be value accretive at the margins. We have people with deep payments expertise within the organization. I have done payments myself for 25 years of my career, so I understand this business very well. Our focus will be on parts of the payments business that are more value accretive from a fee perspective, and we will provide more color on this as we go forward. We intend to build a payments business that is agentic in nature. Because we have expertise in the AI front, especially on agentic AI, we have decided to leapfrog the normal payment business and move into agentic commerce. We believe that the movement to agentic commerce will unlock certain revenue dimensions that have not yet been explored by the industry. This is our thesis, and we are working to implement it. While it might be a great success, a partial success, or a failure, given our experience, we are reasonably confident.

Over the next couple of quarters, we will slowly start working on this business. Our business model is not to burn money to acquire customers. We are not like organizations that give cashback on UPI and burn cash. Our model is to first serve our own customers. Because we do not currently have a payment stack, there is an Opex drag involved in facilitating payments for our customers. Our first objective is to eliminate that Opex drag by doing it in-house. The second step is to intelligently build solutions through the agentic commerce model where our customers and potentially new customers might find benefit and sign on with us. Lastly, we will test undeveloped areas, especially in prepaid payments, where we are confident that there are fee-based revenue pools that can be tapped effectively. Payments will be a step-by-step, calibrated build over the next 3 to 4 years. We are committed to this as a long-term goal for diversifying our fee revenues during the Lakhya 2031 period. I hope I have answered your question.

Analyst: Yes, sir. That answers my question. Thank you so much and I wish you and your team the very best.

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

Chintan Shah – ICICI Securities: Thank you for the opportunity and congratulations on the quarter. Firstly, on personal loans, I wanted to understand who the key competitors are and how our yield stacks versus peers. Secondly, what differentiates us on the personal loan front, whether it is faster turnaround time or customer experience, and I assume the sourcing is largely digital only? My final question is on AI investments. Could you elaborate on your current run rate of AI-related costs and what proportion is variable based on usage?

Management: On the personal loans part, our key competitors are actually everyone else in the BFSI sector who performs personal loans. There are different models of operation. Large banks primarily operate on their own customer base and through the DSA channel. For us, we operate on our own customer base through cross-selling to our credit-seasoned customers. We also operate marginally through DSAs; our DSA volumes are only 10% of our overall volumes. A large portion of our origination is through digital partners who have a very large pool of customers and are far more amenable to digital processes. They allow for very fine customer selection because they possess a large amount of customer data, enabling a more nuanced underwriting approach. We often use joint scorecard development with target loss rates. The scale-up has been primarily because of digital journeys and the removal of friction across all channels. Our average yield remains at about 16% plus. While the DSA channel might operate between 12% to 13% for prime salaried customers, some of our digital channels will operate at about 19%. Overall, our weighted average yield in the personal loans business is 16% plus.

Regarding AI implementation, there are a couple of parts. We have the core builds, like Cyclops and Nostradamus. These machines use machine learning where you do not have significant token costs, though Nostradamus uses an agentic AI-based query system. We run the machines and have continuous model upgradation costs. Overall, we have spent roughly 33 crores to build Nostradamus and 37 crores for Cyclops. We are still in the process of implementation; for instance, Cyclops will be implemented for microfinance and mortgage this year, and Nostradamus will be expanded beyond personal loans and two-wheelers. The costs on that will continue. Our token consumption last quarter was approximately 240 crore tokens. We use Google Cloud and the GCP suite, so we have a preferential deal with Google on certain AI tools, while we use Claude for some of our coding. Currently, I cannot provide the exact proportion of total IT cost that is variable AI cost, but I can provide that number offline. Our overall IT cost trajectory is between 100 to 120 crores per quarter.

Management: Just to add, regarding Cyclops, Nostradamus, and these new projects, the total amount spent, including previous year capitalization, is around 102 crores at this point. There is also capital work-in-progress for the projects we are currently developing.

Chintan Shah - ICICI Securities: Sure, that answers my question. I will connect offline for the fixed and variable portions. Thank you.

Operator: Thank you. Next question comes from the line of Abhishek Murarka with HSBC. Please go ahead.

Abhishek Murarka - HSBC: Congratulations on the quarter. My question is regarding the wholesale NPA. After many quarters, they have gone up a bit, though it is a small amount. How should we think about the health of the 2,000 crore wholesale book going forward? Second, in your guidance for credit costs coming down, have you factored in NPAs from that book? Does this lead you to rethink your guidance?

Management: Abhishek, let me take this. The small increase in GS3 you are referring to is actually part of a settlement we have already performed, and the impact has already been factored in. It is transitioning between the two quarters, which is why it appears as GS3, but you will see that amount knocked off in the next quarter. As far as other assets on the book are concerned, they are all standard assets, so we do not expect any hits from them. On the ARC resolutions, the PCR on security receipts (SR) was 58% when we started and has now increased to 68%. According to RBI regulations, until all assets domiciled with an ARC are resolved, receipts from the resolution of other assets must be kept as part of that ARC's reserves. This 10% increase shows a substantial buffer has been created. We perform mark-to-market on a regular basis but have that buffer, so we are confident that as resolutions occur ARC-by-ARC, you will see these credits reaching the P&L. We have assured that we will not take these to the P&L but will use them to create macroprudential provisions.

Abhishek Murarka – HSBC: That covers the SR part. Regarding the existing wholesale book being standard, have you factored any slippage from this book into your credit cost guidance, or is it purely based on retail movement while this small book runs off?

Management: It will just run off over a period of time. We have seen significant movement in resolutions. Without naming the specific asset, one in Bangalore saw a deadlock resolved between developers and it has now been launched. That project will take three years to finish, but the collateral cover is almost three times what we have in terms of current valuation. Most of these projects will take 2 to 3 years to resolve. Our resolution team has reasonable confidence that during the Lakhya period, we will achieve realizations higher than the book value. We will not take these over-realizations into the P&L; we will use them to create a buffer. Our credit cost assumptions do not currently assume any cost from the wholesale book because GS3 only contains one asset, Supertech, where the PCR is currently 61%. We believe no further provisions are required based on our quarterly fair valuation.

Abhishek Murarka – HSBC: Very clear. Another quick question regarding rural group loans on Slide 25. Is the "villages activated" in the distribution network a flow number or a stock?

Management: That is a quarterly flow number. We have 2,20,000 villages where we distribute microfinance products. Some of those villages become inactive in a quarter, and our objective is to reactivate them. This number represents brand new villages or previously active villages that became inactive and were □□□□ reactivated. This is a monthly exercise.

Abhishek Murarka – HSBC: Got it. Thank you so much and all the best.

Operator: Thank you. Next question comes from the line of Viral Shah with IIFL Capital. Please go ahead.

Viral Shah – IIFL Capital: Thank you for the opportunity. On the liquidity part, the LCR numbers show a decline of 18 percentage points between the two quarters. Does this mean liquidity was high during the quarter and reduced toward the end?

Management: That is correct, Viral. As the situation improves, we do not need to keep as much liquidity. The ALCO has authorized a management committee to decide on increasing or decreasing liquidity because ALCO meets only once a month. The management committee meets every week to proactively adjust based on changes in the external environment.

Viral Shah – IIFL Capital: Secondly, you mentioned you expect a 5 to 7 basis point increase in the cost of funds for the full year. FY26 cost of funds was 7.35%, and Q1 stands at 7.2%. Does this mean the cost will rise by nearly 20 to 25 basis points from Q1 levels?

Management: That is what we have budgeted for. If you had asked me before the credit policy, I would have added another 5 to 10 basis points because the situation was grim. Geopolitical situations lead to global changes, and if international yields rise, the Indian regulator may have to keep yields competitive. As of two days ago, yields came down, but there have been challenges again between Iran and the U.S. We have been conservative and assumed one or two rate increases might happen. Even if repo rates do not increase, players like us are impacted by short-term yields. A 3 basis point increase happened in the previous quarter. However, the situation can turn favorable, such as with the RBI's FCNRB scheme. If we can mobilize funds through that mode, AAA NBFCs like us will benefit. We have set a range of 7.35% to 7.4%, but if things normalize, we may see a more favorable number over the next few quarters.

Viral Shah – IIFL Capital: You have guided for credit costs to structurally decline to 2% to 2.2% by Q4 FY27. For FY28, can we assume a credit cost of less than 2%?

Management: My first port of call is to reach the 2% to 2.2% range. Cyclops has been effective and delivering results. However, we are operating in a volatile geopolitical environment with some concerns regarding the monsoon. I believe those concerns are overdone, but it is difficult to give a specific answer for FY28 right now. The trajectory of our assets around Q3 or Q4 of this financial year will be more telling. If you ask me in the middle of Q4, I can give a far more cogent answer.

Viral Shah – IIFL Capital: Fair enough. For modeling purposes, would it be fair to assume 2% to 2.2% for FY28?

Management: Yes, you can plug that in for calculation because that is what we are committed to. If we reach 2% to 2.2% by Q4, we must maintain that or go lower in FY28.

Operator: Thank you. Next question comes from the line of Shripal Doshi with Equirus. Please go ahead.

Shripal Doshi – Equirus: If the cost of funds rises due to uncertainty, what are the NIM implications? What range are we building in?

Management: Regarding NIM implications, we stick to our corridor of 10% to 10.5%. There are different moving parts; some quarters the cost of funds goes up or down. Yield now depends on our business mix. Mortgages is the only asset book with a variable interest rate where we can pass on increases. We also have levers in fee income and the upcoming revenue flows from our payments platform starting next financial year. We have consistently stuck by our NIM guidance for the last three years.

Shripal Doshi – Equirus: Where do you see the loan book mix shaping up by the end of FY27 and FY28, given the urban book is gaining share?

Management: Gold loans, micro-LAP, and personal loans will be the thrust areas. These are reasonably high-yielding products. Regarding the rural business loan book, we are at 99.8% collection efficiency. We are not decelerating growth there, but in percentage terms, its share may decrease as other books grow faster. That is why we are confident of staying in the 10% to 10.5% NIM corridor.

Operator: Thank you. Next question comes from the line of Piran Engineer with CLSA. Please go ahead.

Piran Engineer – CLSA: Do the large digital partners you work with for personal loans provide FLDG, and if so, how much?

Management: No, we do not work on an FLDG model with any of them. We originate customers on our own credit terms. Working on FLDG models often means compromising on credit parameters for volume, which is not our philosophy. We pay an origination fee to the partner, nothing else.

Piran Engineer – CLSA: You mentioned taking CGFMU coverage for the microfinance portfolio. How much of the portfolio is covered?

Management: We are taking CGFMU coverage for certain sections of our portfolio that we believe are more prone to economic shocks or event risks, such as regions prone to floods. We also use it for new-to-credit customers. Once a customer completes two or three cycles with us, we may let go of that coverage as they are then credit-seasoned. We are primarily using this in expanding geographies like Rajasthan, Punjab, Haryana, MP, Gujarat, Maharashtra, and Odisha. This year, we will cover approximately 35% to 40% of the total disbursements in the microfinance business. Our objective is to provide optimum protection with the least addition to Opex.

Operator: Thank you. Ladies and gentlemen, due to time constraints we have reached the end of the question-and-answer session. I now hand the conference over to Mr. Sudipta Roy for closing comments.

Management: Thank you for joining the call and for your participation. I trust we have addressed your queries. Our investor relations team is always available to answer additional questions, and my management team and I are available to meet one-on-one or in groups. Thank you as we close the earnings call for Q1 FY27. Have a nice day.

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