

FINANCIAL SERVICES SEGMENT



Rural business finance

Overview

L&T Finance Limited ('LTF') (earlier known as L&T Finance Holdings Ltd (LTFH)) is a leading diversified Retail NBFC headquartered in Mumbai. A ₹ 80,000 crore+ strong pan-India Retail franchise built over the past 15 years, the Company is amongst a select cohort of NBFCs classified as Upper Layer (NBFC-UL) under the scale-based regulations of RBI. The business offers financing across the rural and urban ecosystem through Rural Business Finance, Farmer Finance, Urban Finance (which includes Two-Wheeler Finance, Personal Loans, Home Loans and Loan Against Property), and SME Finance. Over the years, LTF has created a 'Right to Win' and emerged as a leading player in Rural Group Loans and Micro Finance, Farm Equipment Finance, and Two-Wheeler Finance.

LTF is accorded the highest rating of 'AAA' by four credit rating agencies, viz. CRISIL, ICRA, CARE, and India Ratings and has also received leadership scores and ratings from global and national Environmental, Social, and Governance (ESG) agencies.

LTF's Retail franchise and reach:

Retail Book	₹ 80,037 crore
Geo Footprint	Rural: 1,800+ branches servicing ~2,00,000 villages Urban: ~150 branches servicing 100+ Cities/Towns
Customer Database	2.3 crore+

RETAIL FINANCE

▣ Rural Business Finance

Rural Group Loans & Micro Finance (part of the product profile of Rural Business Finance) offers sustainable financing to women in rural India through the Joint Liability Group mechanism. The Rural Group Loans & Micro Finance business delivered a healthy growth of 32% y-o-y, achieving a book size of ₹ 24,716 crore while disbursing ₹ 21,495 crore during the year, reinforcing our position as a leading financier in this segment. Through this business, LTF added 15.4 lakh new customers during the year, empowering them to build sustainable livelihoods. LTF's 14K+ strong feet on the street through a wide network of 1,700+ meeting centres (branches) across 14 states help deliver doorstep banking services to these women entrepreneurs, thus fostering the formalisation of credit and financial inclusion in rural India. Over the past 15 years, the business has financed over 1.4 crore women.

Business momentum in the industry was also positive, with the industry size crossing ₹ 4 lakh crore, supported by tailwinds from a favourable macro environment and stable rural demand.

Going forward, the business will continue to leverage its deep rural network, digital customer value proposition and strong data-driven analytics to grow this business vertical further while maintaining superior asset quality vis-à-vis the industry.



Farmer finance

Farmer Finance

LTF, through its Farmer Finance vertical, is one of the dominant farm equipment/tractor financiers in the country, having financed close to one lakh tractors in FY 2023-24. Even in a year when the domestic tractor industry remained subdued, LTF leveraged its strong dealer and OEM network coupled with a best-in-class digital & data-driven platform to grow the book by 8% to ₹ 13,892 crore with disbursements of ₹ 6,848 crore in FY 2023-24. The business increased its focus on customer retention by leveraging its 11 lakh+ farmer database, resulting in a growth in 'upsell' disbursements.

With its deep granular network and a 19-year legacy in the tractor financing business, going forward, LTF aims to leverage its strengths in order to gain market share in this business while also targeting the farmer ecosystem through launching new products addressing financing requirements at each stage of the Agri Value chain.

URBAN FINANCE

Two-Wheeler Finance

The two-wheeler industry made a strong comeback in FY 2023-24, recording an impressive growth rate of 9% in two-wheeler sales, buoyed by a sustained revival in demand in both urban and rural markets. LTF, an urban and semi-urban player, leveraged the tailwinds of this increased demand through higher finance penetration and grew the Two-Wheeler Finance book to ₹ 11,205 crore, a growth of 25% y-o-y. LTF financed around 9 lakh units of two-wheelers during the year

with disbursements of ₹ 8,586 crore, reflecting its strong position and market share in the two-wheeler financing space. The strength of the business lies in its tie-ups with leading OEMs, its 10,500+ strong sourcing network across 109 locations in urban areas, coupled with our superior customer value proposition. The digital proposition backed by algorithm-driven centralised underwriting enables the company to deliver industry-leading TAT.

LTF expects to continue growing this business through both horizontal and vertical deepening of its distribution network. LTF is strategically shifting its focus towards increasing its share of prime consumers and also gaining market share in the financing of electric Two-Wheelers.

Home Loans and Loan Against Property (LAP)

LTF's Home Loans and LAP financing business gained momentum during the year with ₹ 7,545 crore in disbursements. Supported by a growth in the mortgage market, its book grew 38% to ₹ 18,443 crore, with Home Loans and LAP at ₹ 14,550 crore and ₹ 3,893 crore, respectively. The target customer segment is salaried individuals as well as self-employed non-professionals in major cities in India.

In FY 2023-24, LTF did significant work towards redesigning the digital journeys with an aim to provide best-in-class customer experience. This will strengthen its customer value proposition coupled with expanding its product offerings and deepening its channel partnerships, which will enable the portfolio to deliver strong growth in the future.



SME finance

□ Personal Loans

This business was started three years ago with the aim of leveraging its strong Two-Wheeler customer database. Over the years, LTF built a book size of ₹ 6,440 crore as of FY 2023-24 and disbursed ₹ 4,285 crore with a share of repeat customers at 51%. The average ticket size for our Personal Loans portfolio is ~₹ 1.5 lakh. Our D2C PLANET app (rated 4.4 on Playstore and 4.3 on App Store) acts as an important customer acquisition channel, providing digital geo-agnostic Do-It-Yourself (DIY) journeys to enhance customer experience.

During FY 2023-24, LTF calibrated its growth in the portfolio to focus on revamping the digital journeys to provide best-in-class customer offerings. Going forward, LTF will further scale this business through 'cross sell' to its existing customers and large strategic partnerships to enhance customer acquisition while further sharpening our credit underwriting.

□ SME Finance

The SME sector continued its robust growth momentum in FY 2023-24. This augured well for LTF's SME Finance business (pilot launched in FY 2021-22), which grew to ₹ 3,905 crore with a customer base of 20,000+. During FY 2023-24, the Company disbursed ₹ 3,657 crore. LTF added new locations during the year, taking the total geo presence to 109. LTF also has strong channel partnerships, which it will leverage to grow this business while strengthening its digital journeys and product offerings going forward.

WHOLESALE FINANCE

The Wholesale Finance portfolio comprises Real Estate Finance and Infrastructure Finance. In line with the Lakshya 2026 strategy of Retailisation, LTF was able to accomplish an accelerated reduction of its Wholesale Finance portfolio. The book now stands at ₹ 5,528 crore, which includes the Real Estate book of ₹ 2,337 crore and the Infrastructure Finance book of ₹ 3,191 crore as of FY 2023-24, a steep reduction of 87% over the past two years. LTF expects this book to come down further over the near to medium-term.

Business Environment

Notwithstanding the uncertain global economic growth paradigm, the Indian economy continued its growth momentum in FY 2023-24 through:

- (a) Macro-financial stability
- (b) Strong twin balance sheets of banks and corporates
- (c) Front-loading of public CapEx

Despite the growth momentum, RBI targeted persistent high food inflation by remaining firm and maintaining the policy repo rate at 6.50% through FY 2023-24. Additionally, the average liquidity in the banking system was deep in the deficit zone between September 2023 and the end of March 2024, partly due to a sharp cut in government spending and partly due to a slower pace of banks' deposit growth vis-à-vis credit growth.

However, the NBFC sector remained resilient due to substantial capital buffers, improving asset quality and



Housing finance

robust earnings. NBFC-ULs recorded healthy growth in H1-FY 2023-24, and their GNPA ratio gradually improved while their capital position remained robust. During H1-FY 2023-24, NBFC loan growth (y-o-y) was highest for housing (58.9%), followed by MSME (57.4%), agriculture (52.0%), and microloans (50.7%). This reflects the NBFC sector's thrust on 'financial inclusion'. According to RBI, the increase in risk weights (on personal & NBFC loans) in November 2023 is pre-emptive in nature and in the interest of macro-financial sustainability.

Major Achievements

▣ Achieved Lakshya 2026 goals Two Years in Advance

In May 2022, LTF had, in line with parent L&T's Lakshya strategy, outlined the following Lakshya 2026 goals:

- Retailisation >80%
- Retail Growth >25% CAGR
- Retail Asset Quality with Gross Stage 3 <3% and Net Stage 3 <1%
- Retail RoA 2.8% - 3%

In FY 2023-24, LTF achieved all its Lakshya 2026 goals two years in advance, thereby transitioning to become a Retail NBFC.

Thus, as of March 31, 2024, it stands at a Retail portfolio mix (i.e. Retailisation) of 94% with Retail book size crossing a milestone of ₹ 80,000 crore. Going

forward, the aim is to make the achieved Lakshya goals sustainable through the convergence of Lakshya goals at the LTF consolidated level.

▣ LTF becomes a Single Lending Entity Structure

Simplification of corporate structure has been at the core of LTF's strategy since 2016. In FY 2023-24, LTF completed the merger of L&T Finance Holdings Ltd. and its wholly owned lending subsidiaries, L&T Finance Ltd. and L&T Infra Credit Ltd., resulting in the creation of a single lending entity – L&T Finance Holdings Ltd. Furthermore, the name L&T Finance Holdings Ltd. has been changed to L&T Finance Ltd.

▣ PLANET App crosses 91 Lakh Downloads

In FY 2023-24, the PLANET app (rated 4.4 in Playstore & 4.3 in Appstore) crossed 91 lakh downloads, thereby achieving an important milestone within two years of its launch. Of this, over 11 lakh customers are rural. Through PLANET, LTF has sourced ₹ 5,700+ crore and collected ₹ 1,100+ crore. 75% of servicing is handled by PLANET, thereby providing a seamless servicing experience to its customers.

▣ Digital Finance Delivery in Rural India

100% of disbursements in Rural businesses are made through digital channels. The increased focus on enhancing collections through digital channels in Rural businesses has resulted in 25% of the Rural collections being made digitally in Q4 FY 2023-24 compared to 14% in Q1 FY 2023-24.



Personal finance

▣ Combining Growth with Sustainability

- LTF as a business is aligned with Sustainability goals, with ~50% of the loan book financing sustainable livelihoods and 67% of the LTF workforce employed from Rural areas.
- On the ESG front, LTF has, through the 'Environment' goals, shifted to green power, covering 39% of green usage in its operations, achieved 'Social' goals through increase in the number of women Micro Loan borrowers to 64.20 lakh+ in FY 2023-24 and created One Single Lending Entity through the 'Governance' goals.

Significant Initiatives

Having achieved Lakshya 2026 goals at the Retail level, going forward, the focus would be on reaching 2.8%-3% RoA by FY 2025-26 at a Consolidated level and building a sustainable & predictable Retail franchise. Towards this, LTF defined five pillars as below:

▣ Enhancing Customer Acquisition

LTF leverages the strengths of its presence, distribution franchise, digital delivery & TAT to grow its fulcrum businesses of Rural Group Loans & Micro Finance, Farmer Finance and Two-Wheeler Finance. This has led to a sustainable customer base of over 2.3 crore sourced through the rural and urban funnels.

▣ Sharpening Credit Underwriting

LTF endeavours to create a next-gen integrated underwriting platform leveraging multi-axes underwriting through best-in-class technology with a

combination of scorecards comprising credit bureau, account aggregator framework, and alternate data signals.

▣ Implementing Futuristic Digital Architecture

LTF is re-architecting its tech stack to build a solid, future-ready digital backbone across the domains of customer experience, process engineering, IT infrastructure, and information security. This will enable LTF to provide innovative financial solutions, seamless customer journeys, a faster go-to-market for new products, and faster collaboration with partner ecosystems.

▣ Heightened Brand Visibility

With an aim to establish the L&T Finance brand, the Company launched several branding campaigns across rural and urban areas through various initiatives, viz. print media, outdoor media including billboards, airport advertising, rural wall branding, digital media by sponsoring global sporting events, participation in leading industry forums & fests, etc. LTF also launched its sonic identity during the year to increase its brand recall & capture customer mindshare.

▣ Capability Building

LTF strengthened leadership in critical functions by appointing seasoned industry professionals for the position of Chief Digital Officer. Further, the Company created two new positions and recruited a Chief AI & Data Officer and Chief Marketing Officer. LTF has strengthened its internal talent pool through the



Two-wheeler loans

recruitment of a second line of leadership comprising national sales heads in growth businesses of Rural Group Loans & Micro Finance, Farm Equipment Finance, Two-Wheeler Finance, and Personal Loans.

During the year, LTF received a sanction of USD 125 million each from multi-lateral institutions – the Asian Development Bank (ADB) and Japan International Co-operation Agency (JICA) for social and sustainable financing.

Risk Management Framework

LTF has a robust framework in place to effectively manage risks. The Risk Management Committee, which is constituted by the Board, is responsible for overseeing the Risk Management Framework. The Framework covers the Company's risk appetite statement, risk limits, risk dashboards, and early warning signals.

With the changing business landscape and the emergence of new risks such as digital and data privacy risks, reputational risks, and climate-related risks, LTF is building newer risk frameworks to pre-empt and manage such new and emerging risks.

Credit Risk

Credit risk constitutes the most significant risk for the company. To demonstrate strength in credit risk management, a new age underwriting architecture has been put in place which focusses on the creation of a robust and resilient portfolio. The customer-centric underwriting engine of LTF is equipped to effectively identify different customer segments and tailor the risk assessment and underwriting processes to each segment.

LTF has also invested in improved digital analytics as well as new-age credit underwriting in order to ensure that multiple variables/parameters are considered to arrive at the optimal credit decision.

Further, the company uses advanced dashboards, which provide real-time identification of trends and breaches, empowering it to manage risks proactively and take immediate action to mitigate any potential threat. By analysing behavioural patterns, alternative data sources, geopolitical data, and macroeconomic factors, LTF can make informed decisions and prevent customers from being delinquent in the future. Steps in this regard have been taken to build a new-age underwriting architecture, stringent adherence to the prudent risk norms, and diligently follow the institutionalised processes. All these measures have led to improved asset quality amid volatile times.

Market/Liquidity Risk

Adoption of a prudent approach helps protect the Company from market and liquidity risk. LTF maintains a positive liquidity gap on a cumulative basis in all the time buckets up to 1 year. A Contingency Funding Plan (CFP) has also been implemented by regular monitoring to respond to severe disruptions that might affect the ability to fund some or all activities in a timely manner and at a reasonable cost. A governance structure is defined within the CFP to invoke Crisis Management measures in case the need arises. LTF ensures a positive interest rate sensitivity gap over a one-year horizon. This acts as a mitigant against interest rate risk in the Balance Sheet.



Tree Plantation drive under Project Prakruti, Tumkur, Karnataka

IT Security Risk

LTF has set up an Information Security Management System (ISMS) for effective management & operations. The company is also certified as ISO 27001 compliant.

The Company’s Digital Platform has a 3-Tier Security Architecture with inbuilt disaster recovery along with multiple-layer security, protecting IT networks, websites & applications, databases, and end-user laptops/desktops for data leakage, Denial-of-Service attacks, and ransomware and malware. Further, access control and system health and availability monitoring are undertaken 24X7.

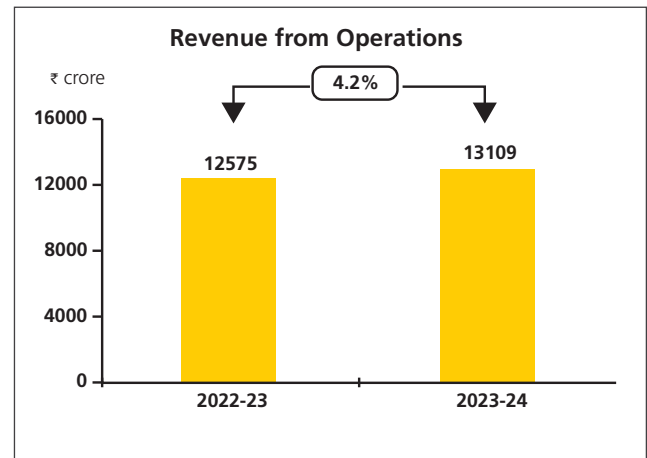
The Company’s security team conducts Vulnerability Assessments on all critical applications, system and network devices, and mobile applications to proactively find any security bugs, misconfiguration, or missing critical security patches that can be exploited. LTF also engages with third parties to conduct vulnerability assessments and penetration testing to ensure security against cyberattacks.

Outlook

As per CRISIL Ratings, India’s GDP growth is likely to moderate to 6.8% in FY 2024-25. It sees greater transmission of policy rate hikes, impact of regulatory actions on unsecured lending, reduced fiscal impulse to growth, and uneven economic growth for key trade partners as likely factors which may weigh in on the GDP growth for FY 2024-25. On the other hand, a gradual pick-up in private CapEx and the government’s continued support towards infrastructure will be some of the positive factors.

As per India Ratings, the growth rate in AUM of NBFCs to moderate in FY 2024-25 compared to FY 2023-24. Following the increase in risk weights by the RBI, the cost of funds for NBFCs from banks has increased, and it is likely to remain elevated in FY 2024-25. The incremental funding requirement for the NBFC sector is expected to be ₹ 4.5 trillion in FY 2024-25, and the volume of public NCDs might go up in FY 2024-25.

Financial performance of the segment

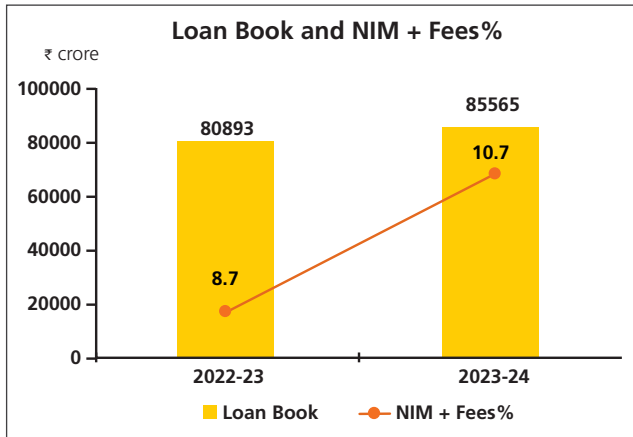


The segment’s revenue improved by a modest 4.2% y-o-y at ₹ 13,109 crore for FY 2023-24 due to the sell-down of the wholesale loan book while scaling-up retail disbursements. The core strategy for the Financial Services



'Digital Sakhi' - Flagship CSR project to promote women entrepreneurship

business in the Lakshya 2026 strategic plan revolves around its transformation into a full-scale retail-oriented, digitally-enabled business. Several initiatives have been completed to exit the wholesale exposure, resulting in 94% of its loan book being retail credit as of March 31, 2024.



Disbursements of loans and advances at ₹ 56,293 crore for the year registered a growth of 20% on a y-o-y basis, reflecting higher credit demand in the various retail

segments due to the overall improvement in economic activity. The Loan Book stood at ₹ 85,565 crore as of March 31, 2024, registering a growth of 6% over the previous year, consequent to higher retail disbursements. The Net Interest Margin (NIM), including fee income, improved from 8.7% to 10.7%, mainly due to the increase in the share of the retail portfolio coupled with higher fee income, partly offset by a marginal increase in the borrowing rates.

The Gross Non-Performing Asset (GNPA) ratio improved to 3.15% as on March 31, 2024, from 4.74% as on March 31, 2023. The net NPA ratio has improved to 0.79% as on March 31, 2024, against 1.51% as on March 31, 2023.