# FINANCIAL SERVICES SEGMENT


*Farm Equipment Finance*

## Overview

L&T Finance Limited (LTF) is a premier Upper Layer Non-Banking Financial Corporation (NBFC), rated 'AAA' (Domestic) and 'BBB' (International), operating as a risk-first, tech-first diversified retail financier. LTF serves a vast franchise of 2.8 crore+ customers across India's rural and urban landscapes.

The company has achieved a Retailisation of 98%, with a retail loan book of over ₹ 1,19,500 crore, diversified across rural and urban products. The company's key businesses are divided into Rural Business Finance, Farmer Finance, Urban Finance, SME Finance and Gold Finance.

### Rural Business Finance

In a year marked by significant industry-wide headwinds, LTF's Rural Group Loans and Microfinance franchise remained resilient. While select segments of the sector faced elevated leverage, the company's prudent sourcing and vigilant monitoring enabled it to maintain one of the lowest credit costs in the industry.

The microfinance landscape witnessed a contraction in FY 2025-26, with overall portfolio declining by 16% (falling from ₹ 3.8 lakh crore to ₹ 3.2 lakh crore) and the active customer base reducing from 8.9 crore to 7.7 crore. Against this backdrop, LTF outperformed the industry, delivering strong portfolio growth from ₹ 25,838 crore in FY 2024-25 to ₹ 29,367 crore in FY 2025-26, representing a healthy 14% rise.

The outperformance was driven by stringent sourcing guardrails and a data-backed underwriting framework. A sustained focus on prudent sourcing and rigorous portfolio monitoring ensured that the company maintained one of the lowest credit costs in the sector, supported by collection efficiency of 99.8% and a 0-DPD (Days Past Due) book of 96.4%.

Looking ahead to FY 2026-27, LTF is well positioned to sustain this momentum through expansion into under-penetrated geographies. In the latter part of FY 2026-27, the company plans to deploy its advanced portfolio management engine – 'Project Nostradamus' - that leverages cutting-edge data analytics to enable granular portfolio monitoring and enhance predictive risk management.

<u>Micro Loan Against Property (Micro LAP)</u>

Leveraging its deep rural expertise, LTF has scaled Micro LAP into a secured, high margin business that is a key driver of asset growth. In FY 2025-26, the segment achieved a key milestone, with the loan book expanding to over ₹ 1,400 crore from ₹ 482 crore in FY 2024-25. This momentum was supported by a network of 260+ branches, which also provides a strong foundation for growth in FY 2026-27. LTF also aims to further accelerate this trajectory by deepening market penetration and expanding into new high-potential geographies.


*Two-wheeler Finance*

## Farmer Finance

In FY 2025-26, LTF delivered strong performance in the Farm Equipment Finance segment, supported by a favourable macroeconomic environment. The reduction in GST on tractors from 18% to 5% lowered acquisition costs, incentivising farmers to accelerate mechanisation. This tailwind propelled industry growth by approximately 23%, with volumes rising from 9.4 lakh to 11.6 lakh units.

LTF in turn achieved a historic milestone by financing ~1.11 lakh units, up from 95,000 units in FY 2024-25 converting to a loan book of ~₹ 11,600 crore for FY 2025-26, growth of 11% y-o-y. This performance was driven by process digitalisation through an in-house employee-assisted application, supported by a rule-based underwriting engine for loan appraisal and full-scale implementation of 'Project Cyclops'. In addition, upstream integration into the dealer ecosystem was achieved through the launch of 'Partner PLANET' application, enhancing real-time trade advances and improving dealer retention.

As the Project Cyclops-underwritten portfolio matures in FY 2026-27, the company anticipates further asset quality improvement and a strengthened growth momentum within the Farmer Finance business.

## Urban Finance

- **Two-wheeler Finance**

  The Two-wheeler industry witnessed strong momentum in FY 2025-26, with annual retail sales growing 12% to reach 2.1 crore units. This was bolstered by the reduction in GST on two-wheelers, which resulted in a 20% y-o-y surge during the Oct-Nov 2025 festive window, with sales totaling 57 lakh units.

  LTF capitalised on the increase in demand through a strategic shift towards prime customers and the expansion of its distribution footprint. Consequently, the prime disbursement mix increased to 90% in March 2026, while the share of prime assets in the overall portfolio mix rose to 76% in FY 2025-26 (previous year 54%).

  The implementation of Project Cyclops, the new three-dimensional underwriting engine, has led to drastic reduction of 0-DPD bounce rates on the entire portfolio by over 6% and Project Cyclops-underwritten portfolio by over 12%. The Project Cyclops-underwritten portfolio comprises around 76% of the overall portfolio.

  Coupled with the full-scale implementation of Project Nostradamus, our AI-driven portfolio management engine, these technological advancements optimised risk control and powered a robust 17% y-o-y growth in the loan book to ₹ 14,400 crore.

*Micro Loans*

- **Retail Housing**

  The Indian mortgage market reached a milestone of ₹ 58 lakh crore during the year, recording a 13% y-o-y. Despite global headwinds and rising costs, the sector witnessed a 16% increase in absorption value, driven largely by a shift towards premiumisation and the luxury housing segment.

  LTF has expanded its reach into semi-urban markets, increasing its physical footprint to a total of 42 main branches and 19 newly established spoke branches. Aided by this expansion, the company delivered a 20% y-o-y growth, closing the year with a loan book of over ₹ 30,000 crore and disbursements of over ₹ 11,500 crore.

  While the home loans segment has seen a steady growth of 11%, with disbursements crossing ₹ 7,600 crore during the year, the LAP segment sustained its growth momentum, registering a 44% y-o-y increase to ~₹ 3,900 crore.

- **Personal Loans**

  The personal loan industry reached approximately ₹ 15.9 lakh crore in FY 2025-26, registering an 11% y-o-y growth, primarily driven by high-ticket disbursements.

  LTF has focused towards large digital partnerships, prioritising these channels over traditional routes, and expanded its ecosystem through the addition of Google Pay and SuperMoney. This strategic shift is designed to strengthen the salaried, near-prime customer profile.

  As a result, the loan book expanded to over ₹ 14,600 crore, registering a 70% y-o-y growth.

- **SME Finance**

  The Micro, Small and Medium Enterprise (MSME) sector continues to be a cornerstone of India's economy.

  LTF's growth was driven by the expansion of its physical presence to over 100 new locations, in addition to its existing network of 118 branches, the scaling up of its direct sales team and the launch of the Partially Collateralised Business Loan (PCBL) programme. The PCBL offering has been specifically designed to address customer borrowing needs through more efficient capital structuring.

  Furthermore, Project Cyclops marked a significant milestone in transforming LTF's credit assessment framework by enhancing consistency and accuracy in decision-making. Alongside Project Cyclops was 'Project Helios' – an AI-driven assistant that was launched to enhance the speed, accuracy and efficiency of SME credit decisions.

  These initiatives have contributed to the loan book scaling to over ₹ 8,500 crore in FY 2025-26 from ~₹ 6,500 crore in FY 2024-25. LTF disbursed ₹ 6,100 crore during the year, a 23% increase over the previous year.

*Home Loans*

### Gold Finance

LTF has significantly strengthened its retail portfolio through the acquisition of Paul Merchants Finance's gold loan business. This acquisition brought in over 130 branches, approximately 700 employees, and a book valued at ~₹ 1,300 crore.

The gold loan vertical is now a core component of LTF's diversified retail franchise, serving as a high-yield secured product within its asset portfolio. Strategically, it is expected to evolve into a key cross-sell tool leveraging LTF's existing customer base across Rural Group Loans and Microfinance, Two-wheeler and Farm Equipment Finance.

Since the acquisition, LTF has added 200 new branches — focusing on high-potential areas, bringing its total distribution network to more than 330 gold loan branches.

By balancing its presence across both rural and urban markets, the company aims to turn the gold loan business into a significant driver of long-term retail growth.

## Business Environment

The global economy in 2025 navigated a landscape defined by divergent growth paths and a fundamental reordering of trade priorities. One of the most significant disruptions during the year was the sharp escalation in tariff rates to levels unseen in over a century. Against this backdrop, global growth is estimated to have slowed to 3.0% in 2025, down from the 3.3% seen in 2024.

Despite an increasingly fragmentated trade environment, the Indian economy demonstrated remarkable resilience through FY 2025-26 supported by private consumption, a robust manufacturing sector and sustained capital expenditure by the government. As per the second advance estimates, India's real GDP growth for FY 2025-26 is estimated at 7.6%, surpassing previous projections. The economy showed strong momentum through the first three quarters of FY 2025-26, with a slight moderation expected in the final quarter due to the conflict in West Asia and a high base effect.

Headline inflation declined to an average of ~2.1% for FY 2025-26 (vs. 4.6% in FY 2024-25), driven by a prolonged nine-month decline in food prices. The RBI delivered one of the sharpest easing cycles in recent history, cutting policy rates by 1.25% from February 2025 to December 2025, signalling its commitment to sustaining domestic demand amid increasing global uncertainty.

In 2025, S&P upgraded India's long-term sovereign credit rating to 'BBB' from 'BBB-' and its short-term rating to 'A-2' from 'A-3', with a Stable outlook. This marked the country's first sovereign upgrade by S&P in 18 years.

The implementation of GST 2.0 reform in September 2025 resulted in the streamlining of India's previously complex indirect tax rate structure. Early data from 2026 suggest that this rationalisation has successfully balanced the scales: reducing the compliance burden for small businesses and cooling inflation, while simultaneously driving record-high monthly collections through increased volumes.

*Personal Loans*

## Major Achievements

### L&T Finance International Ratings – at par with India's Sovereign Rating

| Rating Agency | Long-term / Short-term Rating of LTF |
|---|---|
| S&P Global Ratings (S&P) | BBB / Stable / A-2 |
| Fitch Ratings (Fitch) | BBB- / Stable |

The long-term ratings are investment-grade and at par with India's sovereign credit rating. These ratings enable the company to tap global capital markets, diversify its liability franchise and further broaden its investor base.

### Strategic tie-ups with large technology partners

Continuing its focus on innovation, seamless digital experiences and ecosystem partnerships, LTF entered into strategic collaborations with Google and SuperMoney to develop next-generation credit solutions. These partnerships build on the successful rollout of earlier alliances with platforms such as Amazon Pay, CRED and PhonePe. Together, these initiatives are expected to enhance market penetration, accelerate new customer acquisition and enable faster business scaling.

### R.AI.S.E 2025 – Improving and projecting LTF's tech quotient through RAISE'25 & Investor Digital Day

LTF successfully concluded the second edition of its flagship BFSI-AI event, RAISE 2025, on November 7, 2025 in Mumbai. With the theme 'Accelerating Financial Services with AI', the conclave served as a premier platform to showcase LTF's digital transformation and its vision of becoming a 'risk-first, tech-first' multi-product retail financier.

The event attracted over 4,500 attendees and featured a marquee line-up of 40 national and international speakers, including technology leaders, policymakers and industry practitioners. A major highlight was the introduction of 'Pitch Point', an AI startup pitch platform designed to cultivate and incubate the fintech AI entrepreneur ecosystem.

The Investor Digital Day, held on the sidelines of RAISE on November 6, 2025, provided a deep dive into LTF's proprietary technology AI stack, including Project Cyclops and Project Nostradamus.

RAISE 2025 has reinforced LTF's position as a magnet for top-tier technology talent and a pioneer in the application of Generative and Agentic AI within the financial services sector.

### Project Cyclops & Project Nostradamus

L&T Finance has transformed its credit framework through a proprietary AI-led technology stack. Project Cyclops, a next-generation underwriting engine, now powers 100% of Two-wheeler, Farm, Personal Loans and SME disbursements, significantly reducing Net Non-Starter (NNS). Complementing this, Project Nostradamus was

*Gold Loans*

launched in Beta in August 2025 as an industry-first portfolio management engine, providing real-time insights down to micro-market clusters. To further augment human decision-making, LTF introduced two 'Agentic AI' co-pilots:

- **Project Helios** - an underwriting assistant that reduced SME disbursement turnaround time by 30%, saving 1.5 hours per case
- **Project Orion** - a conversational interface for Nostradamus, allowing credit teams to query complex4 delinquency and vintage data in real-time. These initiatives aim to drive significant credit cost reduction

## Significant Initiatives

### Foray into Gold Financing

L&T Finance entered the gold loan financing business through acquisition of the gold loan business from Paul Merchants Finance. The business acquired comprised 130+ branches, ~700 employees and ~₹ 1,300 crore of loan book.

The integration of technology and people was completed within a short time-frame of eight weeks, which significantly reduced time-to-market while ensuring business continuity and minimal disruption for customers and employees.

### Sampoorna Branch

Central to this strategy is the integration of select Gold Finance branches into the multi-product 'Sampoorna' branch network. LTF inaugurated its first Sampoorna branch in Ujjain, thereby creating a comprehensive service ecosystem for its customers. To date, 11 of the newly established gold loan branches operate under the Sampoorna branch format.

## Risk Management

### Credit Risk

Management of credit risk, encompassing transactional (default) and portfolio (intrinsic and concentration) risks, is central to company's strategy. LTF has adopted a pragmatic, data-first framework to ensure that every financing opportunity is aligned with its risk-return objectives.

### Project Cyclops: AI-Driven Precision

The centerpiece of LTF's credit evolution is Project Cyclops, a proprietary AI-driven digital credit engine. Leveraging advanced machine learning and big data analytics, Project Cyclops has streamlined the entire credit life-cycle — from origination, underwriting to continuous portfolio monitoring. The platform integrates alternative data sources, including account aggregator data and bureau insights, enabling swift credit decisioning, prime onboarding and strategic shifting.

### Project Nostradamus: Early Warning Intelligence

To complement Project Cyclops, LTF has deployed Project Nostradamus, an advanced Early Warning Signals (EWS) engine. Operating at both macro and micro levels,

*Business Loans*

Project Nostradamus analyses behavioural patterns and macroeconomic variables to identify credit stress ahead of defaults. LTF's in-house economic team tracks multiple macroeconomic variables, to proactively steer the portfolio away from potential headwinds. Further, the company has established benchmark vintage thresholds based on budgeted credit costs, enabling close monitoring of the portfolio and timely corrective actions.

### Operational and Model Risk

- **Operational Risk**

  Operational Risk is a 'process and people risk' that LTF manages through rigorous internal controls. The internal controls deployed utilise a Risk and Control Matrix (RCM) approach to identify and assess risk across customer onboarding, business operations and collections.

  Every new product or feature modification undergoes a strict approval process via the Product and Process Approval Group (PAG). To mitigate 'People Risk' — including human error or fraud — the Operational Risk department periodically updates Standard Operating Procedures (SOPs).

- **Model Risk**

  As reliance on algorithms-driven decision-making increases, LTF has instituted a dedicated Model Risk Management framework. Currently, models are deployed across key areas including credit risk management, collection decisions, market risk management and financial reporting.

  To govern model risk, a Board-approved Model Risk Management Policy and Model Risk Management Committee were established in FY 2023-24. Under the oversight of this specialised committee, models are reviewed at every stage — development, active use and retirement — to mitigate the risk of inaccuracies in risk assessment. All models underlying Project Cyclops and Project Nostradamus undergo rigorous validation prior to implementation and are subject to periodic monitoring thereafter.

### IT Security Risk

In an increasingly digital landscape, protecting IT assets is paramount. The Information Security (Infosec) team at LTF secures business applications through 'Security by Design' and 'Zero Trust model' with ethical hacking and 24/7 monitoring.

The Information Technology Strategy Committee (ITSC), comprising Board members, oversees LTF's security posture. The company holds an ISO 27001:2022 certification, ensuring that the Information Security Management System (ISMS) meets international standards. Our digital platform features a 3-tier Security Architecture with in-built disaster recovery to protect against ransomware, malware and data leakage. A monthly security dashboard meeting reviews the company's IT security posture across infrastructure, applications, governance, data security and business resilience.

*Home Loans*

**Liquidity Risk**

Heightened uncertainty fuelled by shifting global trade dynamics and evolving geopolitical conflicts has increased volatility in funding markets. Consequently, the need to proactively manage liquidity risk — defined as the risk of possessing insufficient liquid assets to meet financial obligations — has never been more critical.

Throughout FY 2025-26, LTF demonstrated robust liquidity risk management, maintaining positive cumulative gaps consistently within the structural liquidity statement for all buckets up to one year.

**ESG, Climate and Geopolitical Risks**

LTF is a pioneer in integrating emerging risks into its core financial strategy. We recognise that climate change can manifest as operational interruptions or altered asset values.

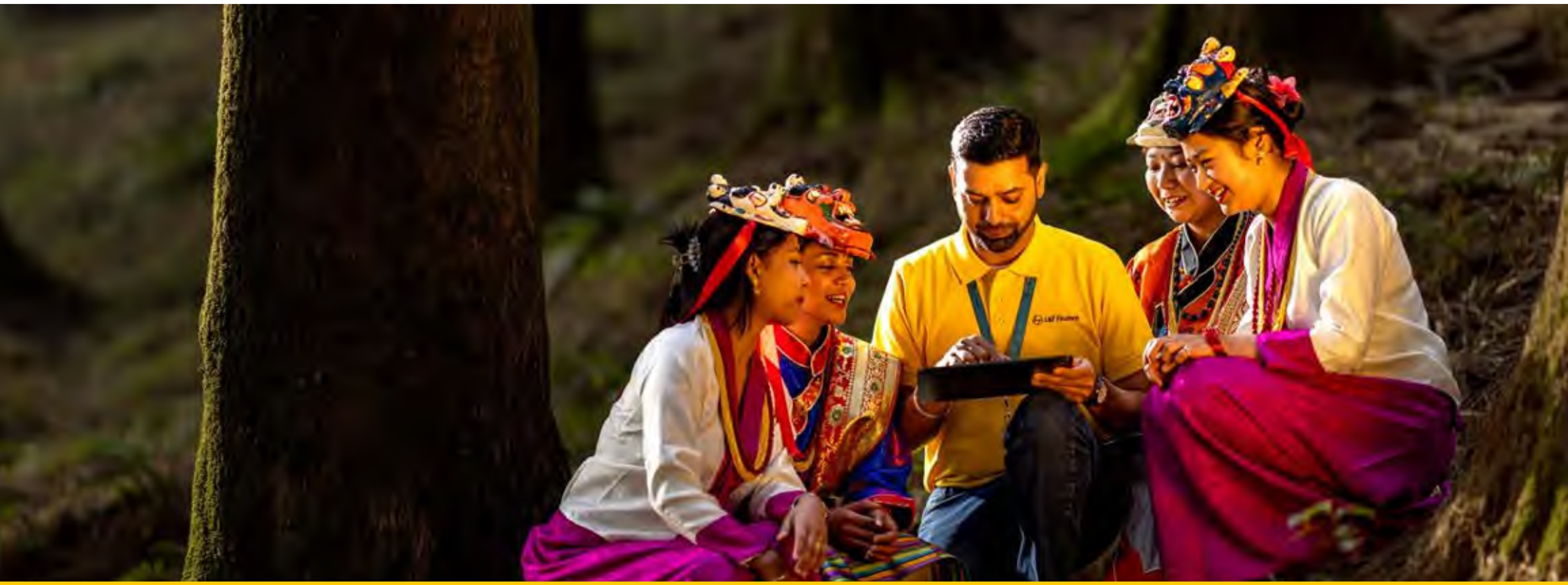
- **Climate Integration:** The company undertakes detailed analyses of key variables, such as rainfall deviation and reservoir storage capacity, to manage risks primarily within the Rural Business and Farmer Finance portfolios. Climate risk considerations are now embedded in decision-making protocols and periodic portfolio assessments.
- **ESG and ICAAP:** In compliance with RBI directives, LTF has established an Internal Capital Adequacy Assessment Process (ICAAP) that formally incorporates ESG risks.
- **Geopolitical Risk Monitoring Vigilance:** The company actively tracks geopolitical and economic developments to adjust strategies and protect collections at risk.

## Outlook

The global economy had been on course for stronger-than-expected growth before the disruption in West Asia started in February 2026. The uncertainty surrounding the duration and magnitude of this disruption will test the resilience of the global economy.

India's GDP is expected to grow at 6.9% in FY 2026-27 driven by strong private consumption, a modest recovery in private investment and robust export performance. However, downside risks to the outlook could emanate from the Gulf conflict. Inflation is projected to rise to 4.3% in FY 2026-27 as it normalises from low levels, with the RBI likely to keep interest rates unchanged while maintaining a neutral stance.

India's financial system recorded steady credit expansion, low asset quality stress and evolving regulatory measures in FY 2025-26. Incremental bank credit growth for FY 2025-26 is estimated at ~₹ 26 lakh crore, representing a ~14.5% y-o-y expansion.



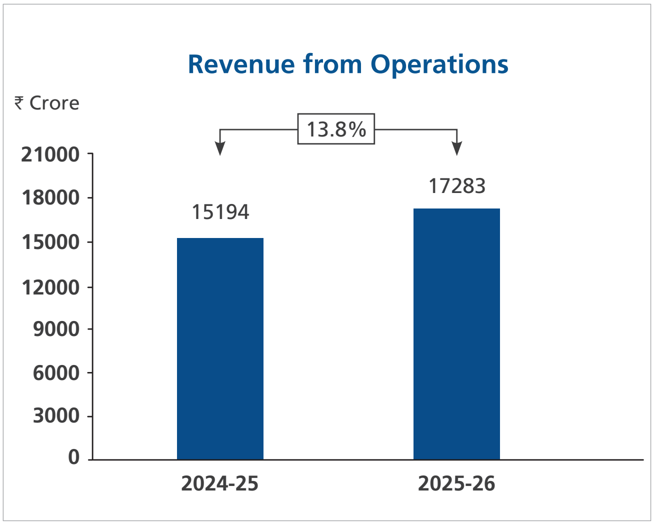
*Micro Loans*

As per the RBI's December 2025 Financial Stability Report, the Indian banking system is robust and resilient, boasting multi-decadal low Gross Non-Performing Assets (GNPA) ratio of 2.1%. Capital buffers are strong, with scheduled commercial banks (SCBs) well positioned to handle financial shocks. The RBI sees the NBFC sector as being stable, showing strong capital buffers, robust earnings, and improving asset quality.

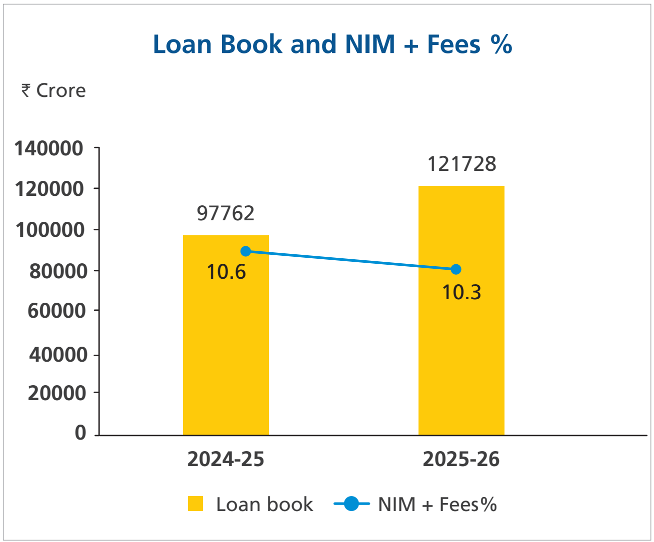
The RBI has, however, flagged specific areas that require vigilance. Unsecured loans (including personal loans, credit cards) accounted for 53.1% of all retail loan slippages. The RBI noted that private banks are particularly exposed, with 76% of fresh slippage originating from this segment. In addition, high impairment has been observed in borrowers who have unsecured loans from five or more lenders, a trend driven largely by rapid fintech credit expansion (36.1% y-o-y growth). Further, while domestic fundamentals remain strong, external risks such as geopolitical tensions, trade uncertainty and currency volatility may continue to pose fresh challenges for financial institutions.

According to CRIF Highmark, India's retail lending market surged to ₹ 162.7 lakh crore by December 2025, supported by 690 million active accounts. The market is undergoing a clear structural shift, secured products like gold and auto loans are now significantly outperforming unsecured segments. While rising asset values and favourable LTV (loan-to-value) ratios are boosting ticket sizes in top-tier categories, the real volume growth is coming from beyond the Top 100 (BT-100) cities. Driven by robust digital infrastructure, these Tier II and Tier III markets have become the primary growth engines for personal loans, two-wheelers and consumer durables.

**Financial peformance of the segment**



The segment's revenue increased by 13.8% y-o-y to ₹ 17,283 crore for FY 2025-26, driven by the scaling up of retail disbursements. The company's disbursement strategy continues to focus on retailisation, dealer penetration through differential offerings, improved customer retention through top-ups, geographical expansion, and creating strong risk guardrails. As at March 31, 2026, the retail loan book constituted 98% of the total loan book.




Disbursements of loans and advances for the year amounted to ₹ 83,226 crore, registering a y-o-y growth of 38%, reflecting higher credit demand in the various retail segments, supported by resilient domestic economic momentum. The loan book stood at ₹ 1,21,728 crore as at March 31, 2026, registered a growth of 25% over the previous year, primarily driven by higher retail disbursements. Net Interest Margin (NIM), including fee income, at 10.3% reflects a change in the loan mix.

Asset quality indicators continued to improve during the year. The Gross Non-Performing Asset (GNPA) ratio declined to 2.88% as at March 31, 2026, compared to 3.29% as at March 31, 2025. Similarly, the net NPA ratio improved to 0.96% as at March 31, 2026, against 0.97% as at March 31, 2025.