

FINANCIAL SERVICES SEGMENT



Farm Equipment Finance

Overview

L&T Finance Limited ('LTF') is engaged in the business of providing retail financial services. It is a 'AAA' (Domestic) rated Upper Layer Non-Banking Financial Corporation (NBFC) and is among the top tech-focused diversified retail NBFCs in India.

Founded in 1994, LTF completed three decades of successful operations in FY 2024-25, embodying L&T's legacy of trust and excellence. LTF has over the years, serviced close to 2.6 crore customers pan-India, in the rural and urban space.

The company achieved retailisation of 97% with a retail loan book of over ₹ 95,000 crore diversified across rural and urban products. The company's key businesses are divided into: Rural Business Finance, Farmer Finance, Urban Finance and SME Finance.

Rural Business Finance

Rural Group Loans and Micro Finance business (part of the product profile of Rural Business Finance) has empowered ~1.7 crore women entrepreneurs by providing formal credit access through its deep network of over 2,000 meeting centres (branches) in rural areas and over 14,000 on-field workforce. The lending book stood at ₹ 26,320 crore, a growth of 6% y-o-y.

During the year, there have been several challenging macro and business developments, viz. a prolonged heat wave, severe floods in multiple states, a temporary slowdown of cash flow for rural employment schemes due to general

elections, Microfinance Institutions Network's (MFIN) 1.0 & 2.0 interventions and the Karnataka Microfinance Ordinance, that led to severe disruptions in growth and collections. Even in this environment, LTF's rural group loans and MFI remained resilient, backed by strong credit guardrails and stringent portfolio monitoring norms, translating to superior collection efficiencies vis-à-vis the industry.

Building on its deep rural expertise, LTF has pivoted towards establishing secured loan propositions. It has established a foothold with the Micro Loan Against Property (LAP) product and ventured into gold loans through proposed purchase of a gold loan portfolio from Paul Merchants Finance Pvt. Ltd. (PMFPL). The proposed gold loan product is expected to be a significant cross-sell proposition to the ~1.7 crore Rural Group Loans and Micro Finance customer database. The Micro LAP product is expected to cater to the financing needs of a niche segment of the rural population, largely against self-occupied property.

Going forward, LTF is expected to leverage its strength in the technology and data analytics space as the sector is expected to start picking up momentum towards the second half of FY 2025-26.

Farmer Finance

LTF is one of the leading tractor financiers in the country, financing about 96,000 new tractor units in FY 2024-25. Backed by strong OEM tie-ups, deep dealer partnerships of over 2,400 and the tailwinds of a good monsoon, the Farmer Finance business book crossed the ₹ 15,000 crore



Two-wheeler Loans

milestone and grew 10% during the year, ending at ₹ 15,219 crore. The business continued its focus on enhancing customer experience with 100% of onboarding systems being paperless. Digital adoption in collections grew to 61% vs 48% a year ago. With a focus on sharpening credit underwriting, a phase-wise rollout of 'Project Cyclops' was launched in FY 2024-25.

This business will continue to focus on strengthening its positioning and gaining market share while expanding its current offerings through innovative product solutions thereby enhancing customer experience.

Urban Finance

Two-wheeler Finance

The Two-wheeler Finance business in FY 2024-25 moved towards building a prime customer portfolio in the backdrop of a dynamic credit environment despite sectoral headwinds. The company's endeavour to onboard better-quality customers is backed by a deep understanding of the sales channels and OEM partnerships. LTF's sustained technology focus through 100% digital underwriting is being transformed through the introduction of a three-dimensional underwriting engine – Project Cyclops. The project is expected to sharpen credit metrics and create a differentiated approach in next-generation underwriting. Given this backdrop, the company saw a growth of 10% in this business with the book reaching ₹ 12,321 crore in FY 2024-25.

Retail Housing

The Indian mortgage market, comprising home loans and LAP, has been a mixed bag in FY 2024-25. Limited price rises, combined with flexible payment plans and broker incentives, have resulted in a healthy absorption rate. However, rising land prices and regulatory compliances have affected new project launches.

Drawing on the strengths of channel partnerships and an innovative digital customer value proposition, LTF disbursed over ₹ 9,500 crore in FY 2024-25 with the total book crossing the ₹ 20,000 crore milestone. The total book closed at ₹ 24,929 crore, a growth of 27% y-o-y. The home loan and LAP mix was 80 : 20. Further, the company deepened its distribution network to 385 touch-points in FY 2024-25.

With a continuous focus on delivering market leading financing solutions, a reimagined home loan offering proposition – "The Complete Home Loan" – was launched. The company also entered a strategic partnership with PhonePe, with the objective of augmenting its digital sourcing channels.

Personal Loans

The industry experienced a challenging credit cycle due to overleverage in the non-prime segment. Growth was muted for most of FY 2024-25. LTF responded through growth focused on the salaried segment and cross-sell opportunities to its existing two-wheeler customer base. This led to a loan book growth of 34% in FY 2024-25.



Micro Loans

LTF also entered into strategic big-tech partnerships with Amazon Pay, CRED and PhonePe. These partnerships are expected to pick up pace in FY 2025-26, leading to the creation of a significant customer base.

▣ SME Finance

The SME Finance business book achieved a 67% y-o-y growth and closed at ₹ 6,524 crore. The business saw disbursements of over ₹ 5,000 crore in FY 2024-25. The business continues to focus on deepening market penetration through geographical expansion, providing customers with a seamless journey and expanding sales channels through direct sales teams and call centres that enhance outreach and operational efficiency.

Business Environment

FY 2024-25 was a year characterised by continuing global economic uncertainties amidst accentuated geopolitical conflicts and disruptive tariff announcements from US.

On the domestic front, rural India was affected by heat waves and an extended election season that led to a delayed release of grants. Further, the postponement of government spending resulted in a short to medium-term liquidity squeeze. This was balanced by a normal monsoon, record harvests followed by robust rural spending. On the other hand, urban India saw a downturn in the credit cycle. Overall, domestic macro fundamentals continued to remain resilient, as reflected in stable inflation, disciplined fiscal management and strong external balances.

On the back of mixed high frequency growth indicators and supported by moderation in retail inflation, RBI reduced policy repo rate by 50 basis points to 6%, after a gap of almost five years. This was also followed by supportive credit measures by way of a risk-weight reduction on bank lending to NBFCs.

Major Achievements

▣ Strategic tie-ups with large technology partners

In continuing with LTF's commitment to innovation, providing seamless digital experience and fostering partnerships within the lending landscape, LTF entered into partnerships with Amazon Pay, CRED and PhonePe to develop cutting-edge credit solutions. These will aid in better market penetration, new customer acquisition and allow businesses to scale up faster.

▣ Launch of next-generation credit underwriting engine – Project Cyclops

The company launched an omni-channel, omni-customer credit underwriting engine, which is the first-of-its-kind engine in the industry, facilitating thorough underwriting on a three-dimensional axis. The AI-ML-powered underwriting engine facilitates an in-depth assessment of the customer's potential integrating bureau, account aggregator and trust signals at scale.



Home Loans

Reimagined home loans offering through 'The Complete Home Loan' product

L&T Finance launched an industry-first 'The Complete Home Loan' proposition providing tailored solutions including home décor finance with seamless digital offering and best-in-class customer solution.

R.AI.SE 2024 – India's first AI in BFSI conference

LTF held the premier R.AI.SE 2024 conference in November 2024 under the theme of 'Re-imagining Financial Services with AI'. R.AI.SE 2024 focused on showcasing real-world applications and use cases of AI in the BFSI space highlighting AI's potential to enhance financial inclusion, customer experience and business growth. The congregation saw widespread participation of 1,400 in-person and over 3,000 joining virtually, with marquee guest speakers / thought leaders from the realm of AI and BFSI participating from across the world.

Significant Initiatives

Gold Loan

The company's entry into the gold loans segment is through the proposed purchase of the gold loans business undertaking of Paul Merchants Finance Pvt. Ltd. (PMFPL). This transaction is on a slump sale basis and is expected to close by Q2 FY 2025-26. The PMFPL's gold business is a natural cross-sell product for LTF's Rural Group Loans and Micro Finance business.

Launch of KAI

The company launched Knowledgeable AI (KAI), an AI-powered virtual home loan advisor, which is a dynamic and interactive solution, providing a responsive as well as a personalised customer experience.

Risk Management

Effective risk management involves a systematic approach to identifying, evaluating and addressing potential as well as existing threats. This process encompasses both qualitative and quantitative analysis, focusing on the establishment and refinement of controls to minimise or prevent adverse outcomes. A comprehensive risk management strategy is central to LTF's operations. The Board-established Risk Management Committee provides oversight for this framework. This framework encompasses the company's defined risk tolerance, established risk limits, real-time risk monitoring tools and early warning systems. Recognising the evolving business environment and the emergence of novel challenges, including digital security, data privacy, reputational concerns and climate-related vulnerabilities, the company is actively developing updated risk management protocols to proactively address these emerging issues.

*Micro Loan Against Property***Credit Risk**

LTF's business faces considerable credit risk on account of the diverse and complex nature of the retail business, thereby necessitating a robust management system. Credit risk is generally made up of transaction risk or default risk and portfolio risk. Credit risk management is essential to minimise default risk and concentration risk. LTF follows a pragmatic framework for evaluating financing opportunities aligned to the risk-return strategy of the organisation within the applicable regulatory environment.

A structured approach to credit risk management is established in line with the goals / strategy of the organisation, internal and external environment. In an effort to address credit risk structurally, LTF, with the help of cutting-edge technology, is transforming its underwriting architecture through a three-dimensional engine that combines bureau, account aggregator and alternate data.

Further, Project Cyclops, the AI-driven digital credit engine, is working towards strengthening credit risk assessment by delivering real-time, data-driven insights. The company also employs sophisticated dashboards that provide real-time trend identification and breach alerts, enabling proactive risk management and immediate response to potential threats.

LTF is in the process of developing an advanced portfolio management solution to proactively manage customer cohorts, identify stress signals and take corrective measures to mitigate risks. By analysing behavioural patterns,

alternative data sources and macroeconomic factors, the company can make informed decisions on effective customer delinquency management. These measures have contributed to improved asset quality despite challenging market conditions.

Market/Liquidity Risk

A conservative approach is employed to protect LTF from market and liquidity risks. LTF maintains a positive cumulative liquidity gap across all time buckets up to one year. A regularly monitored Contingency Funding Plan (CFP) is in place to address significant disruptions that could impede funding capabilities. A governance structure within the CFP facilitates a crisis management response when needed. The company maintains a positive interest rate sensitivity gap over a one-year horizon, mitigating balance sheet interest rate risk. The Asset Liability Committee (ALCO) of LTF maintains an oversight of all aforesaid matters by way of monthly meetings, and the minutes of the ALCO meetings are presented to the Risk Management Committee (RMC) on a quarterly basis. The above-mentioned processes and governance structure enable LTF to modulate its response to evolving market conditions in a timely and effective manner.

Model Risk

Model risk refers to the potential for errors or inaccuracies in the models used for decision-making that can lead to incorrect assessments of risk or value and increase the risk of losses for the company. Model Risk Management in LTF



Business Loans

is carried out by the Model Risk Management team whose responsibilities include managing a Model Governance Framework containing sets of policies, procedures and controls that are designed to manage the risks associated with the use of models in decision-making processes. To govern the model risk, Board-approved Model Risk Management policy and Model Risk Management Committee have been put in place in FY 2023-24. The objective is to review various model aspects at different stages of the model (development, active use, change and retirement), and to set a high-standard for the model by putting in place a robust risk-dependent review and monitoring framework.

IT Security Risk

The information security team at LTF is responsible for securing business applications from cyber threats by incorporating security features in design of applications, carrying out monthly security assessments on Google Cloud Platform (GCP), cloud and data center, having best-in-class virus and threat protection practices, enabling ethical hacking through external experts, and ensuring round-the-clock security event monitoring of all IT assets. LTF has set up an Information Security Management System (ISMS) for effective management and operation, which is ISO 27001 compliant and certified. To prevent emerging threats, LTF has implemented controls to ensure business

continuity and data protection. LTF's digital platform has a 3-tier security architecture with in-built disaster recovery, along with multiple-layer security. This security system protects its IT network, websites and applications, databases and end-user laptops/desktops for data leakage, denial-of-service attacks, ransomware and malware. The company also engages external parties to conduct vulnerability assessments and penetration-testing as well as ensuring robust protection against cyberattacks.

Outlook

Moving into FY 2025-26, it is expected that the Indian economy will continue to be resilient on the back of strong domestic consumption despite continuing global economic volatility. The FY 2025-26 Union Budget has laid the foundation for the increase in disposable income and higher consumer spending through reduction of personal income tax rates. However, the continuation of government spending on development and the emergence of private expenditure towards capacity augmentation is a metric to look out for in FY 2025-26.

RBI is expected to continue its balanced regulatory approach fostering growth while ensuring compliance, maintaining a clear focus on systemic stability. While there was a downtick in the credit cycle in both rural and urban India in FY 2024-25, this is likely to moderate and stabilise over H1 FY 2025-26, while charting a path to growth from H2 FY 2025-26 onwards supported by a lower system-wide leverage.



Personal Loans

Financial performance of the segment

The segment's revenue improved by 15.9% y-o-y at ₹ 15,194 crore for FY 2024-25 due to scaling up of retail disbursements. The core strategy for the Financial Services business in the Lakshya 2026 plan revolves around retailisation, dealer penetration through differential offerings, improved customer retention through top ups, geographical expansion and creating strong risk guardrails. Several initiatives have been undertaken over the past couple of years to exit the wholesale exposure, resulting in 97% of its loan book being retail credit as of March 31, 2025.

Disbursements of loans and advances at ₹ 60,305 crore for the year registered a growth of 7% on a y-o-y basis, reflecting higher credit demand in the various retail segments due to resilient domestic economic momentum. Business is following a risk calibrated disbursement strategy in the micro finance sector given the temporary headwinds. The loan book stood at ₹ 97,762 crore as of March 31, 2025, registered a growth of 14% over the previous year, consequent to higher retail disbursements. The net interest margin (NIM), including fee income, marginally declined to 10.6% due to a change in the loan mix.

The Gross Non-Performing Asset (GNPA) ratio is at 3.29% as on March 31, 2025, compared to 3.15% as on March 31, 2024. Similarly, the net NPA ratio is at 0.97% as on March 31, 2025, against 0.79% as on March 31, 2024. The business is well capitalised with Capital Adequacy (including Tier II capital) of 22.27% as on March 31, 2025.

