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Headline	'MFI collection efficiency back at 99.6%'		

'MFI collection efficiency back at 99.6%'

Q&A The focus of L&T Finance is to expand its footprint in the eastern part of the country, setting up branches in West Bengal and Odisha, **Sudipta Roy**, managing director and chief executive officer, L&T Finance, told **Anupreksha Jain** in an interview in Mumbai. He said the transfer of the gold business of Paul Merchants Finance would be completed by June 15. Edited excerpts:

Unsecured segment, especially in the microfinance sector, has been seeing rising stress levels. When do you see the sector returning to normal?

■ We have been the least impacted in the microfinance segment. Our average credit cost in the microfinance business has been sub-5 per cent, against the industry average, which is 8-10 per cent.

When the whole segment has become sour, you also feel the pinch. Hence, we took about ₹900 crore of credit cost on a ₹26,000 crore microfinance book. This is probably the third-largest microfinance book. We have nearly 900 employees in the risk control unit in the microfinance business to verify customers.

As a result, we are back to collection efficiencies of 99.6 per cent, except for Karnataka. Sector wise, we expect a return to normalcy by August/September this year.

You have a sizeable presence in the southern and northern parts of the country. In the years to come, which geographies are you focusing on when it comes to expansion?

■ States like Bihar, Odisha, West Bengal, Chhattisgarh, and Assam are largely rural, not semi-urban. We believe the eastern part of the country requires greater focus in terms of formalising the financial channels of delivery, which explains why we have been looking east.

We are one of the largest players in microfinance in Bihar, eastern Uttar Pradesh (UP), West Bengal, and Odisha. We are just starting out in western UP.

When are you expecting the transfer of the Paul Merchants Finance business to get completed? How do you plan to grow the gold loan business?

■ The integration will be completed by June 15. The strategy we are planning to deploy is to direct our active micro loan customers, who are about 6.2 million, to our branches. We already have 130 branches with Paul Merchants' gold loans after acquisition, and will be setting up 60-70 more. By the end of this year, the branches will number around 200.

Women are the demographic we want to focus on as they are our exclusive customers.

The gold loan business has been booming for banks and non-banking financial companies. Is there an overheating worry?

■ For the past two years, gold loan financiers have experienced outsized returns. Such outsized returns won't exist over a period of time. Typically, they tend to normalise if you have a one-two-year boom. At the same time, global uncertainties have kept the prices of gold elevated. To an extent, I believe that the market has the potential to absorb more and it can grow 20-25 per cent. However, lenders have to be careful not to leverage customers. As an organisation, we do not look at outsized returns. And it gives me that perfect balance to strike between secured and unsecured products.

What is the growth guidance for the company?

■ We are part of L&T Group's five-year plan, which is called Lakshya, ending 2026. This year, we have guided for 20-25 per cent growth. Last year, the growth rate was 19 per cent, primarily because we eased up on microfinance.

What are your fundraising plans?

■ We have signed a pact with Japan International Cooperation Agency and Asian Development Bank for \$125 million each.

As far as raising capital goes, I think we are over-capitalised. I expect our leverage to reach 5-5.5 per cent. Given our profit trajectory, our return on equity should reach 14-15 per cent in sometime.

Around late 2027 to early 2028 is when we might look at raising capital. For our liability needs, we regularly tap into the bond market by way of non-convertible debentures.



“OUR AVERAGE CREDIT COST IN THE MICROFINANCE BUSINESS HAS BEEN SUB-5% AS AGAINST THE INDUSTRY AVERAGE, WHICH IS 8-10%”

Sudipta Roy, MD & CEO, L&T Finance

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The focus of L&T Finance is to expand its footprint in the eastern part of the country, setting up branches in West Bengal and Odisha, said **Sudipta Roy**, MD & CEO, **L&T Finance** in a face-to-face interview with *Anupreksha Jain* in Mumbai. He said that the transfer of the gold business of Paul Merchants Finance will be completed by June 15.

Edited excerpts:

Unsecured segment, especially the microfinance sector, has been witnessing rising stress. Given a strong presence in the microfinance sector, when do you see the sector returning back to normalcy?

We have been the least impacted in terms of the microfinance segment. Our average credit cost in the micro finance business has been sub five per cent as against the average credit cost in the microfinance industry, which is around 8 to 10 per cent. When the whole segment has become sour, you also feel the pinch. Hence, we took about ₹900 crore of credit cost approximately on a ₹26,000 crore MFI book, which is probably the third-largest MFI book. What kept us prevented was our internal guardrails. We have almost 900 people in the risk control unit in the micro finance business, who go and verify customers. As a result, we are already back to collections efficiencies of 99.6 per cent, barring Karnataka. Sector wise, we think things will normalise by August-September of this year.

You have a significant presence in the southern and northern parts of the country. In the coming years, which geographies are you focusing on in terms of expansion?

States like Bihar, Odisha, West Bengal, Chhattisgarh, Assam are largely still rural and not semi-urban. We believe that the eastern part of the country requires more focus in terms of formalising the financial channels of delivery and that is why we have been focusing quite a lot on the eastern side. We are one of the largest players microfinance lenders in Bihar, eastern UP, West Bengal and Odisha. We are just starting up in Western UP.

When are you expecting the transfer of the business to get completed? How do you plan to grow the gold loan business?

The integration will be completed by June 15. The strategy we are planning to deploy is to direct our active micro loan customers which are about 6.2 million, 100 per cent women, to our branches. We already have 130 branches with Paul Merchants' gold loans post-

acquisition, and we will be setting up another 60-70 branches. So by the end of this year, the branches will be around 200. Women are the segment we want to focus on as they are exclusive customers.

Gold loan business has been booming for banks, NBFCs. Is there a concern of overheating?

For the last two years, gold loan financiers have experienced outsized returns and such outsized returns won't exist over a period of time. Typically, they tend to normalise if you have a boom for 1-2 years. At the same time, uncertainties around the world have kept the gold prices elevated. So to an extent, I do believe that the market has potential to absorb more and it can grow around 20-25 per cent. However, lenders have to be careful not to leverage the customers. As an organisation, we do not look at outsized returns. And it gives me a perfect balance between secured and unsecured products.

What is the growth guidance for the company?

We are part of the L&T group's 5-year plan, which is called Lakshya, ending in 2026. This year we have guided for 20-25 per cent growth. Last year, the growth rate was 19 per cent primarily because we slowed down microfinance.

What are your fundraising plans?

We have signed a pact with Japan International Cooperation Agency (JICA) and Asian Development Bank for USD 125 million each. As far as raising capital is concerned, I think we are overly capitalised. I expect that our leverage should reach about 5-5.5 per cent and given our profit trajectory, our ROEs should reach to about 14-15 per cent in sometime. So around late 2027 or early 2028 is when we might look at raising capital. For our liabilities needs, we regularly tap the bond market by way of NCDs.

MFI collection efficiency back at 99.6%: L&T Finance MD & CEO Sudipta Roy

Sudipta Roy said that the transfer of the gold business of Paul Merchants Finance will be completed by June 15

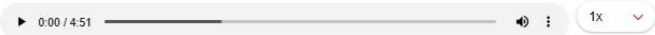


Sudipta Roy, MD & CEO, L&T Finance

Anupreksha Jain | Mumbai
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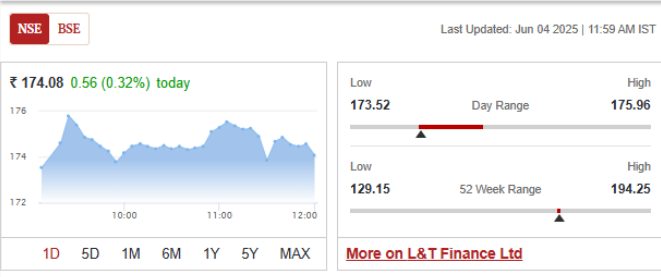
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