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L&T Finance may focus more on loans with PSL benefit to reduce borrowing cost, says CEO Sudipta Roy

<https://www.moneycontrol.com/news/business/l-t-finance-may-focus-more-on-loans-with-psl-benefit-to-reduce-borrowing-cost-says-ceo-sudipta-roy-13304859.html>

L&T Finance will focus more on the bank loans with priority sector lending (PSL) to reduce the borrowing cost of the company by more than 25 basis points (Bps) in the financial year 2025-26, said Sudipta Roy, managing director and chief executive officer, in an interview with Moneycontrol.

He added that the company will also focus on market borrowing through commercial papers (CPs) and non-convertible debentures, as after the 100-bps interest rate cut by the Reserve Bank of India (RBI), borrowing cost through these instruments has reduced over 40 bps.

“The focus going forward because of the reduction in interest rate will be focused on market borrowing both in the form of NCDs through the private route and commercial paper,” Roy said in an interview.

Roy said that bank loan PSL comes with lower interest rates compared to bank loan non-PSL, and focusing more on the former will help the company to reduce borrowing cost.

Further, Roy said that after Paul Merchant Finance acquisition, which was in the gold loan business, the L&T Finance will add 150 branches in FY26, to scale up the business.

How your microfinance book is doing, has the things stabilised?

Industry is still in a transition phase because the MFIN guardrails which came into effect in Q1 is yet to fully settle. For us, we saw upward movement in collections efficiencies. Karnataka continues to drag. After the ordinance was introduced in February, there was a very large deceleration in collections efficiency, which has been climbing up and it has been a positive rate of climb with every passing month.

But we still believe that Karnataka to come to normalcy close to October or November this year. However, the rest of the country is near normalcy, and probably it will take another two to three months to sort of inch towards normalcy.

As the monsoons are progressing well and we think we will see normalcy in microfinance in H2, more likely in Q4 than in the early parts of Q3. If Karnataka had not happened, probably Q3 would have been right to assume as normalcy.

How you want to shape newly acquired gold loan book in next one year?

Our gold loan strategy is driven by primarily two things. First, we have a lot of customer base in rural areas and they have cumulatively borrowed about Rs 16,000 crores worth of gold loans. So, to a certain extent, our gold loans is driven by a cross-sell objective of our existing set of customers. Secondly, we also wanted a high-yield secured portfolio, for which obviously gold loan was a strategic investment for us to enter this business.

Now, we got in 131 branches and about 700 people in a fully functioning business. We got about 1,300 crores worth of balance sheet transferred as well. For the rest of the year, we are planning to put in about 150 plus branches.

If you see Paul Merchant has been largely concentrated in the north, especially in the Punjab, Haryana, to a certain extent also in presence in Gujarat and MP. We'll be expanding this footprint towards, our traditional strongholds in, especially in the microloans business, in West Bengal, Orissa and Bihar. We had created some of our micro-Loan Against Property (MLAP) branches, gold loan ready in the south of the country, which can be converted into a gold loan branch in exactly one month flat.

I don't expect the growth rate at lower than whatever normal growth rate is between 18 to 20%.

When can we expect Project Cyclops to be implemented in personal and business loans?

It is live on business loans. In personal loans, it will go live in September. Farm loans, full implementation will finish in the month of August. SME full implementation will finish in the month of September, and personal loans, the first implementation will happen in September.

What other business you are planning to add in your books?

We are already working on our Lakshya 31 strategy. We are evaluating introduction of some new products. After the Q4, we will probably disclose our Lakshya 31 strategy as well as what are the new products that we may enter in during the intervening period will be announced. Whatever new businesses will come in will be either with the objective of maximizing cross-sell potential, either from a fee's perspective or from a NIMs perspective because cross-sell through new products obviously brings down the acquisition cost and breaks even those portfolios.

I can assure that whatever new products we will do will be technologically advanced products and we will try to bring in technology in administration of those products which the market probably has not seen so far. The new products will be mix of secured and unsecured.

How much borrowing can we expect in next quarter?

The strategy till date has been to focus on borrowing as much through the PSL route. The year-on-year number has gone up by 2 percentage points, 23% to 25% as far as the PSL

borrowings are concerned. The non-PSL borrowings have been slightly subdued because they come at a slightly higher cost.

The focus going forward because of the reduction in interest rate will be focused on market borrowing both in the form of NCDs through the private route and commercial paper.

Commercial paper right now is about 8% of the total borrowing. We have also added gold loan as a new business, gold loan financing. This is a one-year product which means average of about six months, this will enable us in borrowing more on the CP side. Our CP exposure could be average in the range of about 10% to 12% which will also give us a benefit on the overall weighted average cost.

The approval for the fresh ratings from the international rating agencies, will enable us to tap the overseas market as and when the rates, the international borrowing rates are equal to or lower than the domestic borrowing.

As the borrowing cost has already come down very sharply, how much can we expect further reduction?

Our expectation was actually that for the full year we should have a 25-basis point reduction compared to the previous financial year on the weighted average cost but looks like we may be able to achieve slightly higher. 17 bps we saw in the Q1 itself.

Actually, the bank borrowing that we have on the books will start showing, reduction in the second half because all these sanctions are at various points of times on completion of one year and renewal.

What will be your guidance on NIMs plus fees?

We will try to maintain NIMs plus fees between 10-10.5% corridor.

L&T Finance may focus more on loans with PSL benefit to reduce borrowing cost, says CEO Sudipta Roy

The company will be launching new products in Q1FY27 as part of the Lakshya 31. These products will be mixed of secured and unsecured, Roy said.

— MANISH M. SUVARNA | JULY 22, 2025 / 18:07 IST

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Sudipta Roy, MD and CEO, L&T Finance

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