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<https://etedge-insights.com/resources/in-conversation/how-lt-finance-is-transforms-sustainability-and-promoting-rural-empowerment/>

From integrating Environmental, Social, and Governance (ESG) principles into its operations to achieving milestones in rural empowerment, L&T Finance has established itself as a trailblazer in the Non-Banking Financial Company (NBFC) sector. ET Edge Insights engaged in an insightful conversation with Sudipta Roy, Managing Director & CEO of L&T Finance Limited (LTF), to delve into the Company's strategic approach to sustainability, its pioneering ESG practices, and its commitment to rural development.

Excerpts

Being an upper-layer retail NBFC, what is the significance of ESG for LTF?

We at LTF take pride in incorporating ESG principles into operations as part of our Lakshya 2026 strategy. Our ESG vision is to be an environmentally and socially responsible financial institution, built on the foundation of 'Assurance' and focused on generating sustainable long-term value for all our stakeholders. In fact, as pioneers and early adopters of ESG practices in the NBFC space, we continue to design processes and structures to manage ESG risks effectively. In 2022, we committed to becoming carbon neutral by 2035. In this direction, the Company has undertaken several initiatives to reduce its operational carbon footprint, like sourcing 100% of electricity requirements at our head office in Mumbai and about 26 branches across the country from renewable energy. Currently, more than one-third of the Company's operations are powered by green energy. It is worth noting that Rs. 1 invested in our social initiatives has generated a social value of Rs. 123. Moreover, the Company's governance principles stem from a legacy of predictability and sustainability, inheriting values from Larsen and Toubro Limited.

Tell us more about the governance pillars and practices at LTF that have helped you drive sustainability.

By incorporating sustainability into the framework below, we are effectively advancing our ESG commitments.

Robust Board and Committee Structure: The Board of Directors supervises eight committees, including the CSR and ESG Committee. The inclusion of four independent directors with

diverse backgrounds and two female directors enhances diverse perspectives and independent opinions on the board. Our Nomination and Remuneration Committee (NRC) conducts performance reviews for the Board based on established Key Performance Indicators (KPIs). We facilitate comprehensive training sessions for all board members while our CSR and ESG committee has established a strong foundation for corporate governance.

Embedding Sustainability in Executive Performance Metrics: Our management's KPIs are also linked to sustainability performance. The Chief Executives drive sustainability goals linked to their respective businesses. Thereby, ensuring the integration of environmental and social considerations into the Company's operations and strategy.

Policy Framework and Monitoring: We have a comprehensive policy framework that guides our processes and actions. Some of the key policies are the Code of Conduct, Protection of Women from Sexual Harassment, Vigil Mechanism, Anti-Corruption, Compliance, Internal Corporate Governance, Securities Dealing Code, Diversity, Equity and Inclusion, and Environmental and Health & Safety, as well as a strong monitoring system. Every policy is reviewed annually by the Board and the Board-level committees and revised as needed, which is evidence of a strong policy monitoring system.

Transparency and Reporting: By enhancing our reporting mechanisms and exceeding compliance requirements for ESG metrics, we build trust with investors and stakeholders while holding ourselves accountable to our sustainability goals. For instance, in FY22, LTF voluntarily mapped the Business Responsibility and Sustainability Reporting (BRSR) in our Integrated Report before it became mandatory, and in FY24, we reported on the BRSR core parameters a year ahead of schedule. Additionally, all our reports undergo independent third-party assurance, even when not required. This year, we also became one of the first in the industry to report Financed Emissions for our select Retail Portfolio.

Stakeholder Engagement: We engage with several stakeholders, including employees, investors, and the community, to foster sustainability. We ensure that governance structures facilitate dialogue and incorporate stakeholder feedback into decision-making processes. Recently, we have also been recognized as a Great Place to Work® Company. It is a testament to our ongoing engagement efforts with relevant parties.

Risk Management: Our corporate governance includes a framework for managing sustainability-related risks, such as climate change, resource depletion, and social inequality.

How is LTF promoting Rural Livelihood and Development?

We empower aspirational districts and economically weaker sections by bringing marginalized populations into the formal credit system and promoting digital inclusion. In FY24, 51.6% of our rural loan book originated from low-income states. We are actively serving over 40 such aspirational districts. Through offerings like Rural Group Loans and Micro Loans, we support women's entrepreneurship and livelihood enhancement in rural India, thus contributing to Sustainable Development Goals. Keeping Sustainable Development Goal 5 in mind, we have increased the number of active women customers to over 6.4 million in FY24 from 6 million in FY23. Additionally, we achieved a 48.6% contribution of our loan book towards rural livelihood financing. Our Two-wheeler Finance initiative aligns with Sustainable Development Goal 8, under which we are promoting mobility, fostering sustainable economic growth, and supporting decent work. In FY24, our CSR flagship project 'Digital Sakhi', which promotes

digital and financial inclusion in rural areas, has reached 2,200 villages in 25 districts across 9 states. So far, through the pool of 1,700 Digital Sakhis, 14,000 women entrepreneurs have been empowered and have been able to reach 4.2 million rural community members, especially women with essential knowledge on digital and financial tools, thereby contributing to inclusive growth and rural development.

What ESG area presents a significant opportunity for LTF to enhance its impact and performance in the future?

In FY24, we established a Sustainable Finance Framework aimed at financing social and environmental projects that align with the United Nations Sustainable Development Goals. This year, LTF secured sustainability-focused loans of Rs. 9,444 crore. We believe there is a significant opportunity to transform key sectors such as agriculture, agri-allied services, and SMEs, particularly focusing on underserved and marginalized communities. By attracting funds for low-income states, women, and farmers, LTF not only enhances social impact but also positions itself as a dominant player in the sustainable finance landscape. These initiatives will unlock new business avenues, strengthen community resilience, and ultimately contribute to long-term financial stability and growth for the industry and LTF as we align our goals with societal and environmental objectives.

LTF believes adopting a sustainability strategy helps organizations optimize resources, mitigate climate change, promote inclusive growth, ensure compliance, and create long-term stakeholder value.

How L&T Finance's strategic approach to sustainability and pioneering ESG practices are helping to create long-term stakeholder value

In Conversation / By ET Edge Insights / December 9, 2024



Sudipta Roy, Managing Director & CEO, L&T Finance Limited

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